

Pensions Committee

6 September 2017

Time 10.00 am **Public Meeting?** YES **Type of meeting** Pensions

Venue Training Room - Ground Floor - Civic Centre, St Peter's Square, Wolverhampton
WV1 1SH

Membership

Chair Cllr Ian Brookfield (Lab)
Vice-chair Cllr Keith Inston (Lab)

Labour

Cllr Harbans Bagri
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Louise Miles
Cllr Phil Page
Cllr Tersaim Singh

Conservative

Cllr Paul Singh
Cllr Wendy Thompson

District Members

Cllr Keith Chambers (Walsall Metropolitan Borough Council)
Cllr Steve Clark (Dudley Metropolitan Borough Council)
Cllr Sandra Hevican (Sandwell Metropolitan Borough Council)
Cllr Changese Khan (Birmingham City Council)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull Metropolitan Borough Council)

Trade union observers

Mr Malcolm Cantello
Mr Martin Clift
Mr Alan Phillips
Mr Ian Smith

Quorum for this meeting is eight Councillors.

Information for the Public

If you have any queries about this meeting, please contact the Democratic Services team:

Contact Dereck Francis
Tel/Email Tel:01902 555835 or dereck.francis@wolverhampton.gov.uk
Address Democratic Services, Civic Centre, 2nd floor, St Peter's Square,
Wolverhampton WV1 1RL

Copies of other agendas and reports are available from:

Website <http://wolverhamptonintranet.moderngov.co.uk>
Email democratic.services@wolverhampton.gov.uk
Tel 01902 550320

Please take note of the protocol for filming and recording of, and use of social media in, meetings, copies of which are displayed in the meeting room.

[NOT PROTECTIVELY MARKED]

Some items are discussed in private because of their confidential or commercial nature. These reports are not available to the public.

Agenda

Part 1 – items open to the press and public

- | <i>Item No.</i> | <i>Title</i> |
|-----------------|---|
| 1 | Apologies for absence (if any) |
| 2 | Notification of Substitute Members |
| 3 | Declarations of interests (if any) |
| 4 | Minutes of the previous meeting - 21 June 2017 (Pages 7 - 16)
[For approval] |
| 5 | Matters arising
[To consider any matters arising from the minutes of the previous meeting] |
| 6 | Economic and Market Update - July 2017 (Pages 17 - 26)
[To receive a report on the global economy and investment markets] |
| 7 | Responsible Investment Activities (Pages 27 - 40)
[To review the report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 April to 30 June 2017] |
| 8 | The Markets in Financial Instruments Directive II (MiFID II) - Opt Up to Professional Client (Pages 41 - 50)
[To receive an update on rules for the implementation of the EU directive] |
| 9 | Annual Report and Accounts 2016/17 (Pages 51 - 54)
[To approve the audited annual report for the year ending 31 March 2017, and its publication on the Fund's website] |
| 10 | Service Plan Monitoring 2017/18 and Quarterly Accounts June 2017 (Pages 55 - 76)
[To receive an update on performance against key performance indicators (KPIs), the forecast outturn for the year against operating budgets and quarterly accounts as at the end of June 2017] |
| 11 | Accounting Policies 2017/18 (Pages 77 - 90)
[To endorse the accounting policies to be used in preparing the Funds' accounts for the 2017/18 financial year] |
| 12 | Risk and Compliance Monitoring 1 April to 30 June 2017 (Pages 91 - 102)
[To consider the quarterly update of compliance monitoring for the Fund for the period 1 April 2017 – 30 June 2017] |

- 13 **Pensions Administration Report from 1 April to 30 June 2017** (Pages 103 - 128)
[To receive the report on the work undertaken by the Pensions Administration service during the period 1 April to 30 June 2017 for both the Main Fund and the West Midlands Integrated Transport Authority Fund]
- 14 **Data Quality Report** (Pages 129 - 132)
[To receive an update on the work of the Fund in the area of data quality and to provide assurance for the action the Fund is talking with employers to improve data]
- 15 **Fund Structure and Governance** (Pages 133 - 138)
[To provide an update on staffing at the Fund due to take effect from 1 October following the retirement of the Strategic Director of Pensions and appointment of the Fund's Chief Investment Officer to the same role within LGPS Central]
- 16 **Exclusion of the press and Public**
[To pass the following resolution:

That in accordance with Section 100A(4) of the Local Government Act 1972 the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information on the grounds shown below]

Part 2 - exempt items, closed to press and public

- 17 **Employer Covenant Update** (Pages 139 - 150)
[To receive an update on the review of the in-house monitoring framework and the individual cases arising from the ongoing monitoring process]
- 18 **Asset Allocation and Investment Performance - Period to 30 June 2017** (Pages 151 - 176)
[To consider the quarterly asset allocation and investment performance report for the period to 30 June 2017]
- 19 **Asset Allocation and Investment Monitoring Performance Quarter Two - 1 April to 30 June 2017 West Midlands Integrated Transport Authority (WMITA) Pension Fund** (Pages 177 - 194)
[To consider the asset allocation and investment monitoring report on the performance of the WMITA Pension Fund and the implementation of its investment strategy for the period ended 30 June 2017]
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)
- Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)

- | | | |
|----|---|---|
| 20 | <p>Investment Risk Management (Pages 195 - 198)</p> <p>[To receive an update on the progress setting up the passive currency hedge on the equities benchmark of the West Midlands portfolio and to report on the investments made using the index futures tools that the Committee approved in April of this year]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |
| 21 | <p>Investment Pooling Update (Pages 199 - 204)</p> <p>[To report on progress made with the implementation and set up of LGPS Central in line with the Government's overall timescale of 1 April 2018]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |
| 22 | <p>Cleveland Planning Application Update (Pages 205 - 208)</p> <p>[To receive an update with the planning application process for up to 1,000 homes on the Fund's agricultural land in Cleveland]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |
| 23 | <p>Red Funnel Ferries Acquisition (Pages 209 - 212)</p> <p>[To update the Committee with the recent acquisition of a substantial stake in the Isle of Wight ferry operator, Red Funnel]</p> | <p>Information relating to the financial or business affairs of any particular person (including the authority holding that information) Para (3)</p> |

This page is intentionally left blank

Attendance

Members of the Pensions Committee

Cllr Ian Brookfield (Chair)
Cllr Keith Inston (Vice-Chair)
Cllr Harbans Bagri
Cllr Peter Bilson
Cllr Jasbir Jaspal
Cllr Louise Miles
Cllr Phil Page
Cllr Paul Singh
Cllr Tersaim Singh
Cllr Wendy Thompson
Cllr Keith Chambers (Walsall MBC)
Cllr Changese Khan (Birmingham City Council)
Cllr John Mutton (Coventry City Council)
Cllr Angela Sandison (Solihull MBC)
Cllr David Sparks (Dudley MBC)
Malcolm Cantello (Trade Union Representatives)
Ian Smith (Trade Union Representatives)

Employees

Geik Drever	Strategic Director of Pensions - West Midlands Pension Fund
Rachel Brothwood	Director of Pensions - West Midlands Pension Fund
Jason Fletcher	Chief Investment Officer - West Midlands Pension Fund
Dereck Francis	Democratic Services Officer
Jane Hazeldine	Trustee Management Officer
Rachel Howe	Head of Governance - West Midlands Pension Fund
David Kane	Head of Finance - West Midlands Pension Fund
Amanda MacDonald	Client Lead Auditor – City of Wolverhampton Council
Amy Regler	Programme Manager - West Midlands Pension Fund
Mark Taylor	Director - City of Wolverhampton Council
Simon Taylor	Head of Client and Funding Management - West Midlands Pension Fund

Part 1 – items open to the press and public

Item No. *Title*

- 1 **Apologies for absence (if any)**
Apologies for absence were submitted on behalf of Cllr Sandra Hevican (Sandwell Metropolitan Borough Council) and Martin Clift, UNITE.

2 **Notification of substitute members**

No notification of substitute members were received for the meeting.

3 **Declarations of interests (if any)**

There were no declarations of interests.

4 **Minutes of previous meetings**

Resolved:

That the minutes of the meeting of the Pensions Committee and the Investment Advisory Sub Committee held on 22 March 2017 be approved as a correct record and signed by the Chair.

5 **Matters arising**

With reference to Minute No. 12 of the Pensions Committee (Markets in Financial Instruments Directive (MiFID) II Adoption). The Committee was advised that proposed changes to the Financial Conduct Authority implementation policy were expected which would make it easier for Funds to 'opt up' to professional client classification under the EU directive. Confirmation was expected by the end of the month. The Fund would still need to 'opt up' but this would become an administration exercise.

With reference to Minute No. 5 of the Investment Advisory Sub Committee (Cleveland Planning Application update), Rachel Brothwood, Director of Pensions reported that the outcome on the planning application had been delayed and that a revised date for determination of the application was awaited.

6 **Appointments and Dates and Times of Meetings 2017/2018**

The Committee was invited to note/confirm appointments onto the Pensions Committee and to agree the dates and times of its meetings and those of the Pensions Board during the 2017/2018 Municipal Year.

Resolved:

1. That it be noted that in accordance with the Constitution of the Fund, City of Wolverhampton Council at its Annual Meeting on 17 June 2017 had appointed Councillor Ian Brookfield as Chair of the Pensions Committee and Councillor Keith Inston as Vice-Chair of the Committee for the 2017/2018 Municipal Year.
2. That the appointment of the following Trades Union representatives onto the Committee for the Municipal Year 2017/2018 be confirmed.

UNITE the Union	Ian Smith and Martin Clift
GMB	Alan Phillips
Unison	Malcolm Cantello

3. That the following dates and times of meetings of the Pensions Committee and Pensions Board for the Municipal Year 2017/2018 be approved.

Pensions Committee – 10 am:

6 September 2017

6 December 2017

28 March 2018

Pensions Board - 2pm

5 July 2017

23 January 2018

7 Completion of the 2016 Actuarial Valuation

Simon Taylor, Head of Client and Funding Management presented the report which set out confirmation of the finalised 2016 actuarial valuation and a summary of the national position and associated reviews.

Malcolm Cantello, asked whether it would be possible to segregate the Local Authority contributions from the primary and secondary contribution rates for the Main Fund referred to in paragraph 3.2.2. of the report and noted these were above the level expected for the 2014 Scheme at the time of the reform. The Head of Client and Funding Management confirmed that the information could be separated in order to provide an average for Local Authorities. Rachel Brothwood, Director of Pensions explained the difference between the contribution rates contained in the report and the statutory cost cap. The latter related only to future service benefits and changes in 'member costs' and does not reflect changing inflation, salary growth and discount rate assumptions. The two were not directly comparable. She explained how the contribution rates for employers in the fund had increased for 2017/18 and noted a comparison with other Local Government Pension Schemes should be available later in the year.

Resolved:

1. That responsibility be delegated to the Director of Pensions, in consultation with the Chair or Vice Chair of Pensions Committee, to finalise arrangements to enable the Fund to mitigate exposure to employer covenant risk through guarantee and security agreements.
2. That the finalisation of the 2016 actuarial valuation and the associated actuarial Rates and Adjustment certificate signed on 31 March 2017 be noted.
3. That the ongoing activity to oversee changes in employer funding arrangements and wider review of outcomes of the 2016 actuarial valuation be noted.

8 Responsible Investment Activities

Jason Fletcher, Chief Investment Officer outlined the salient points of the update report on the work undertaken by the Investment team regarding their responsible investment activities between the period 1 January to 31 March 2017.

Cllr Louise Miles asked officers to investigate whether the alleged cluster munitions production at Hanwha Corp was a regulated arms trade and whether the company had an arms export trade licence for this activity. Cllr Miles also suggested that other ways of raising the Fund's concerns with the Hanwha Corp in addition to writing letters should be explored. The Chief Investment Officer undertook to investigate whether the alleged activity was regulated and lawful and supported the principal of taking the level of engagement further.

Cllr John Mutton requested an email on any response the Local Authority Pension Fund Forum (LAPFF) had received to its letter to Hanwha Corp. He also supported the principal of the Fund and LAPFF seeking to engage with the Hanwha Corp.

The Chair informed the Committee that it had agreed a process of engagement to address concerns and to seek change in the activities of the Company which included lobbying LAPFF. He hoped that like other companies who the Fund and LAPFF had engaged with, that the Fund would see some change in their behaviour. He suggested that the Fund should continue to seek change through engagement and that the officers would investigate the issues raised by the Committee. He also noted that the investment with Hanwha was through an index-tracking Fund and Committee's responsibility to consider the wider financial implications of moving away from this investment.

In response to Malcolm Cantello, the Chief Investment Officer reported that there was no further update regarding National Express and their union relations in the US. The Fund's concerns were raised at the National Express Plc's Annual General Meeting. The Chair asked the Chief Investment Officer to respond to Malcom Cantello direct with any update on the matters raised.

Resolved:

1. That the Fund's voting and LAPFF's engagement activity for the three months ending 31 March 2017, including Appendix 1 be noted.
2. That it be noted that the issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. That the update provided on the recent engagement activities with Hanwha Corporation and Motorola Solutions be noted.
4. That other activity undertaken to ensure the Fund continued to develop and support its approach to Responsible Investment be noted
5. That the briefing (provided from the IIGCC, of which the Fund is a member) on President Trump's decision to withdraw the US from the Paris Agreement on climate change set out in Appendix 2 to the report be noted.

- 9 **Asset Allocation and Investment Performance - Period to 31 March 2017**
Jason Fletcher, Chief Investment Officer outlined the salient points of the report on the quarterly asset allocation and investment performance which covered the performance of the Fund, and the implementation of its investment strategy for the period to 31 March 2017.

In response to questions about the deployment of the Fund's cash reserves, the Chief Investment Officer briefly articulated on the asset classes where the investments were proposed.

Resolved:

- That the contents of the asset allocation and investment performance report for the period ended 31 March 2017 be noted.

- 10 **Annual Investment Performance Report 2016/17 West Midlands Pension Fund and West Midlands Integrated Transport Authority (WMITA) Fund**
Jason Fletcher, Chief Investment Officer presented the asset allocation and investment monitoring report on the performance of the WMITA Pension Fund and the implementation of its investment strategy for the period ended 31 March 2017.

Resolved:

That the contents of the asset allocation and investment monitoring report for the period ended 31 March 2017 be noted.

- 11 **Annual Report and Accounts 2016/17**
David Kane, Head of Finance, presented for approval a report on the Fund's draft annual report and statement of accounts for the year ending 31 March 2017. The report also set out the outturn against operating budgets and performance against key performance indicators (KPIs) for the year. The Head of Finance drew the Committee's attention to page five of a paper from the Fund's external auditors, Grant Thornton on their audit findings for the West Midlands Integrated Transport Authority Pension Fund financial statements. There was nothing of significance that the auditors wished to highlight for the attention of the Fund.

The Chair placed on record his thanks to the Fund's Senior Management Team and staff for the exceptional year the Fund had. He particularly noted the above benchmark returns on investments; the reduction in the costs of administration, oversight and governance per member; and the costs transparency. Regarding the savings on the staffing budget due to vacancies, the Chair reported that he would wish to see the position more balanced. The Head of Finance acknowledged that the staffing position was not where the Fund would want to be. He offered reassurance that recruitment had taken place during 2016/17 and the Fund was working towards full establishment. During the year the Fund had also targeted its staffing/recruitment to match the needs of the service.

Resolved:

1. That the draft annual report and accounts for the year ending 31 March 2017 be approved.
2. That the outturn against operating budgets, which is an under spend of £10.4 million, and performance for the year against the Fund's key performance indicators be noted.
3. That it be noted that the draft accounts have been certified by the Section 151 Officers as required by regulations.
4. That it be noted that the draft annual report and accounts for West Midlands Pension Fund would now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion, to be reported to the Committee in September 2017.
5. That it be noted that the audit of the accounts for the West Midlands ITA Pension Fund is nearing completion, and the auditors anticipate issuing an unqualified opinion.

12 **Internal Audit Report 2016/17**

Amanda McDonald, Client Lead Auditor, City of Wolverhampton Council presented a report on the outcome of the work programme for internal audit for 2016/17. No significant audit issues had arisen throughout the year and, where identified weaknesses / improvements had been identified during the course of audit work, the Fund's management had agreed recommendations. Based on this and assurances made available to the Fund by other providers as well as internally by Internal Audit, the Client Lead Auditor informed the Committee that Internal Audit could provide reasonable assurance that the Fund had adequate and effective, governance, risk management and internal control processes.

The Client Lead Auditor also thanked the staff at the Fund for their support throughout the year.

Resolved:

That the internal audit report for 2016/17 be noted.

13 **Risk and Compliance Monitoring 1 January to 31 March 2017**

Rachel Howe, Head of Governance presented the report on the quarterly update of compliance monitoring for the Fund for the period 1 January to 31 March 2017.

The Chair thanked City of Wolverhampton Council's ICT service for the cyber protection arrangements which protected the Fund's PCs against the recent WannaCry cyber-attack that had affected computers in a number of public and private organisations. Regarding trustee training, he encouraged members to continue logging the time spent in preparing for meetings and attending other pensions events.

In response to Malcolm Cantello regarding vulnerability of PCs to cyber-attack if they are using the Windows XP operating system, the Head of Governance reported that the Fund was aware of this and was in the process of rolling out Windows 10 on all its computers. The Fund's systems had been tested and it was found that one system was operating on Windows XP. This had now been withdrawn.

Resolved:

1. That the top ten risks for West Midlands Pension Fund as set out in Appendix 1 to the report be noted.
2. That the compliance monitoring for the quarter and the resolutions put in place to address non-compliance be noted.
3. That the Trustee Training program for 2017/18 be noted.
4. That the work of the Fund to ensure its compliance with the Pensions Regulator's guidance regarding Defined Benefit (DB) schemes be noted.

14 **Annual report of the Local Pensions Board**

Rachel Howe, Head of Governance, West Midlands Pension Fund presented an annual report on the work undertaken by the Local Pensions Board during 2016/17.

Resolved:

That the annual report of the Local Pensions Committee Pensions Committee is asked to note the report.

15 **Policies Review 2017**

Rachel Howe, Head of Governance, West Midlands Pension Fund presented a report on an overview of the Fund's statutory and good practice policies and the timetable for their review during 2017/2018.

Resolved:

That the annual review of Fund key policies underpinning the Fund strategy and governance arrangements together with the programme of review scheduled for the year be noted.

16 **Scheme Advisory Board Annual Report 2016 and KPIs**

Rachel Howe, Head of Governance, West Midlands Pension Fund highlighted the salient points from the report which provided a national overview of the Local Government Pension Scheme (LGPS).

In response to Malcolm Cantello, Rachel Brothwood, Director of Pensions reported that the Fund had met with and spoken to representatives of LGA and Department for Education (DFE) on the issues of "Tier 3" employers and Academisation of local authority schools and what it meant for the LGPS and their host authorities. She noted the Scheme Advisory Board would be consulting on the objectives of a wider review of academies in the LGPS. The scope of the DFE guarantee is a particular issue but she added that for the one Academy within the Fund that had folded, the Department for Education had made good the pensions liability.

Resolved:

1. That the Scheme Advisory Board's Annual Report and activities for the year 2016/17 be noted.
2. That the points highlighted within the Fund's self-assessment against the Scheme Advisory Board KPIs be noted.

17 **Pensions Administration report 1 January to 31 March 2017**

Simon Taylor, Head of Client and Funding Management, West Midlands Pension Fund presented the report on work undertaken by the pensions administration service during the period 1 January to 31 March 2017 for both the Main Fund and the West Midlands Integrated Transport Authority (WMITA) Fund.

The Chair noted from the report that the increased work load was due in part, to the increase in the number of academies and quality of information provided by fund employers. He thanked all of the Fund staff who had managed the increased workload.

Resolved:

1. That the write-offs detailed in section 8.0 of the report be approved.
2. That the applications approved by the Director of Pensions and the Chair or Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund be noted.

3. That the pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund) be noted.

18 **Data Quality and Employer Performance - Quarterly Update**

Rachel Howe, Head of Governance presented the update report on progress being made by the Fund to continue to improve data quality. The report also contained a summary of plans in place to make further improvements to data quality, and the performance of employers against key performance standards as detailed in the Pension Administration Strategy (PAS).

Resolved:

1. That the progress and the actions being taken to continue to improve data quality be noted.
2. That the performance of employers against key standards set out in the Pension Administration Strategy be noted.
3. That the progress and implementation of the monthly returns programme with scheme employers be noted.

19 **Exclusion of the Press and Public**

Resolved:

That in accordance with Section 100A(4) of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business as they involve the likely disclosure of exempt information falling within the paragraph 3 of Schedule 12A of the Act

Part 2 - exempt items, closed to press and public

20 **Annual Report of the Investment Advisory Panel and the West Midlands Integrated Transport Authority (WMITA) Investment Strategy Panel**

Rachel Brothwood, Director of Pensions presented a report on the activities of the Investment Advisory Panel (IAP) and the WMITA Strategy Panel (Investment and Funding) during 2016/17. The Director requested approval to re-appoint Hymans Robertson as Investment Consultant and Scott Jamieson as Independent Adviser to March 2019.

In response to questions the Committee was informed that:

- The reference at paragraph 6.4 of the report to 'investment policy changes' related to a wider implication of Investment Pooling and not to a change in the Fund's investment policy.
- The transfer of assets over to LGPS Central would not happen overnight, there would be a transitional period. The Fund would still require advisors to support investment strategy and allocation decisions and to assist with scrutiny and challenge of implementation in-house within the fund and/or within LGPS Central.
- A platform for LGPS infrastructure investment has not been determined although discussions continue cross pools. The priority is currently the establishment of the pools.

- It was likely that advisor relationship at both the fund and pool would evolve and change over the next few years.

Resolved:

1. That Hymans Robertson continue as investment consultant to both WMPF and the WMITA fund and Scott Jamieson continue as an external independent investment adviser to WMPF to March 2019.
2. That the work of the Investment Advisory Panel and the WMITA Strategy Panel (Investment and Funding) for 2016/2017 be noted.

21

Update on Investment of Cash Contributions and Currency Risk

Jason Fletcher, Chief Investment Officer presented the update report on the investment of cash contributions received in April 2017 following the 2016 Actuarial Valuation and on the implementation of a currency hedging strategy following the investment strategy review.

In response to questions the Committee was advised that the cash balance would fluctuate because of contributions, distributions and timing of investments. It would take time to undertake the work for the planned investment into income assets which has meant that the Fund would be looking to complete these investments later in the year rather than immediately. Asset allocation and exposure to markets had been facilitated short term through index futures. The Fund would also seek to demonstrate the value added relative to the financial costs for currency management and index futures.

Resolved:

1. That the investments made during April and May 2017 following receipt of agreed advance payment employer contributions be noted.
2. That planned investment into income assets later in the year be noted.
3. That the application of index futures to date be noted.
4. That work underway to implement a currency risk management strategy be noted.

22

Investment Pooling Update

Rachel Brothwood, Director of Pensions presented the headlines from the update report on progress made with the implementation and set up of LGPS Central in line with the Government's overall timescale of 1 April 2018

David Kane, Head of Finance and Amy Regler, Programme Manager delivered a PowerPoint presentation on the cost savings and risks and the regulatory business plan for LGPS Central.

Resolved:

1. That the progress to date with the implementation of LGPS Central be noted.
2. That the approval being sought of the Regulatory Business Plan for LGPS Central at the Shareholders Forum on 19 June be noted.

3. That the Regulatory Capital requirement for LGPS Central and its proposed transfer from West Midlands Pension Fund to LGPS Central on 31 January 2018 be noted.
4. That the updated Cost Savings Model and changes to forecasted savings for the Partner Funds, West Midlands Pension Fund and West Midlands Integrated Travel Authority Pension Fund be noted.
5. That the delegation of authority to the Strategic Director of Pensions and/ or the Director of Corporate Governance to enter into or complete any legal documents to establish a joint asset pool and investment management company on its behalf be noted.

Pensions Committee

6 September 2017

Report title	Economic and market update – July 2017	
Originating service	Pension Services	
Accountable employee(s)	Jason Fletcher	Chief Investment Officer
	Tel	01902 555780
	Email	jason.fletcher@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendation for noting:

The Committee is asked to note:

1. The global economic and market update paper prepared by the Fund's adviser, Hymans Robertson.

1.0 Purpose

1.1 To review conditions in the global economy and investment markets.

2.0 Background

2.1 A report is provided quarterly by the Fund's investment adviser, Hymans Robertson. It is set out in Appendix A.

2.2 The Bank of England opted to maintain the base rate at 0.25% as UK inflation unexpectedly slowed towards the end of the period. Sterling weakened against major currencies and the forecast for UK growth was trimmed amid uncertainty over the economy as the country prepares to leave the European Union. The UK election in June 2017 led to some political instability while political risk receded in Europe in the wake of the French presidential election.

2.3 Equities continued to outperform bonds over the first half of 2017, delivering positive returns as major indices hit record levels. In the short term the Fund continues to favour equity markets while opportunities are sought in income assets.

3.0 Financial implications

3.1 The report contains no direct financial obligations.

4.0 Legal implications

4.1 This report contains no direct legal implications.

5.0 Equalities implications

5.1 This report contains no equal opportunities implications.

6.0 Environmental implications

6.1 This report contains no environmental implications.

7.0 Human resources implications

7.1 This report contains no direct human resources implications.

8.0 Corporate landlord implications

8.1 This report contains no direct corporate landlord implications.

9.0 Schedule of background papers

9.1 There were no preceding background papers.

10.0 Schedule of appendices

10.1 Appendix A: Economic and market update – July 2017.

This page is intentionally left blank

Market update

Introduction

This paper, which is addressed to the Pensions Committee of the West Midlands Pension Fund, provides a short economic and market commentary.

Market returns

UK	30 Jun 17 - 31 Jul 17*	To 30 Jun 17		Global	30 Jun 17 - 31 Jul 17*	To 30 Jun 17	
		3 mths	12 mths			3 mths	12 mths
EQUITIES	1.2	1.4	18.1	EQUITIES	1.8	3.2	19.9
BONDS				North America	1.9	2.8	17.9
Conventional gilts	0.3	-1.3	-0.9	Europe ex UK	0.6	2.7	22.5
Index-linked gilts	-1.3	-2.3	6.7	Japan	0.3	6.4	31.9
Credit	0.7	0.5	5.3	Dev. Asia ex Jap	1.5	4.6	22.8
PROPERTY		2.5	5.1	Emerging markets	4.9	3.8	18.7
STERLING				GOV'T BONDS	0.1	0.6	-3.0
v US dollar	1.5	3.9	-2.8	HEDGE FUNDS		0.8	5.8
v euro	-1.8	-2.6	-5.4	COMMODITIES	1.2	-0.5	0.9
v Japanese yen	-0.2	4.7	6.4				

Total return in local currency (\$ for Hedge Funds and Commodities)
* No index data after 30 June for property and hedge funds

Q2 17

Global economy

- The economic weather followed a similar pattern to Q1. Survey data continued to point to decent momentum in global growth. This was generally reflected in hard data from the Eurozone and Japan, but there were signs that any rebound from disappointing Q1 growth in the UK and US might be subdued.
- The Federal Reserve raised US interest rates again in June, to a range of 1-1.25% p.a., ignoring unexpected weakness in short-term inflation data. They also indicated their intention to start unwinding their QE programme later in the year.
- Headline inflation in the UK continued to rise on the back of last year's fall in sterling. May's UK CPI inflation of 2.9% p.a. was as high as it has been for over five years.
- Despite rising inflation, the BoE has held rates at 0.25% p.a., citing the moderation in pay growth. However, three members of the MPC (out of 8) voted for a rate rise in June, and markets have adjusted to imply a better than evens chance of a rate rise before the end of the year.
- Within currency markets, the euro strengthened against the US dollar and the yen. Sterling fared relatively well in spite of post-election uncertainties towards the end of the quarter.
- Brent crude fell from \$53 to \$48 a barrel over the quarter, erasing most of the gains that followed OPEC's announcement of an output cut last November. Increased production in the US continued to offset the impact on global oil supply of OPEC's cut.

Bond markets

- Gilt yields rose over the quarter. A rise after the announcement of the election in mid-April had been quickly unwound, but yields rose again at the end of June as investors grew more concerned about the possibility of tighter monetary policy.
- Sterling investment-grade credit markets had another good quarter relative to gilts – yield spreads on AA-rated bonds hit their lowest levels for over 12 years.
- Across global credit markets, lower-rated credit led the gains. In the US corporate credit market, the yield premium on speculative grade BB-rated bonds relative to investment-grade AA-rated bonds is as low as it has been since the early days of the credit crunch.

Equities

- Global equity indices rose over the quarter, establishing new all-time highs in June, while levels of volatility implied by options markets fell to new lows. However, sterling's strength towards the end of June offset earlier gains.
- The best regional performance came from Japan and Europe, both perhaps boosted by their robust economic momentum. In addition, the election of Emmanuel Macron as President of France allayed concerns about European political uncertainty. The US struggled against disappointing economic data and failure of the new administration to deliver the tax reforms and infrastructure spending that had encouraged investors in the wake of the Presidential election.
- Global equity sector performance was once again dominated by the weakness of Oil & Gas. Outperformance from the Healthcare sector reflected the more general outperformance of growth stocks relative to value stocks – a reversal of the trend of late 2016.

UK property

- UK property values continued to edge higher in Q2, but remain a little below pre-referendum levels. The strongest gains are still coming from the industrial sector, where rental growth is also slightly ahead of a modest overall rise.

Q3 17 update

- According to initial estimates of GDP growth, the UK economy continued to struggle in Q2, while the US economy bounced back (though not as strongly as expected a few months ago). Eurozone Q2 growth was at a similar pace to the US, sustaining the momentum of the previous two quarters.
- Oil prices rose in July, helped by unexpected falls in US inventories. Brent crude reached \$52 per barrel, its highest level since May, before retreating at the start of August on news of increased OPEC production.
- The statement issued after the US Federal Reserve's monetary policy meeting in July was interpreted as pointing to the start of the unwinding of QE as early as September or October.
- However, the US dollar has remained under pressure as interest rate rises are seen as less likely in the short term. Investors are evenly divided as to whether there will be any further rises this year.
- The short-term weakness in government bond markets continued at the start of July, but quickly faded. 10-year yields in the US, UK and Germany settled back around end-June levels.
- Yield spreads in credit markets narrowed again. Spreads on AA-rated sterling bonds have dipped close to the best levels achieved in the years before the credit crunch.
- Equity markets pushed higher – the evidence of profits reports suggested sustained momentum in global earnings growth. Emerging markets, which typically benefit from dollar weakness, led the latest gains.

Asset class outlook

The tables below summarise our broad views on the outlook for various assets. Each shows the relevant target weight in the Strategic Investment Allocation Benchmark as at 30 June 2017. These will not add to 100%, as the tables do not cover the allocations to the cash flow matching portfolio and special opportunities.

EQUITIES**48.0%**

An upturn in global earnings growth, coupled with equity investors' willingness to put a positive spin on economic data has underpinned the latest leg of the rally. Our view remains that the earnings growth we have seen, and a lot more beside, is required to justify recent valuation levels rather than further strength. We remain unconvinced that the breadth or strength of earnings growth will be sufficient to offset the valuation strains imposed by rising risk-free yields. (We certainly don't think earnings growth will be broad or strong if risk-free yields don't rise.)

PRIVATE EQUITY**10.0%**

The primary market remains stretched and prices are high in secondary markets, where existing unspent commitments have been swollen by investors seeking to put record levels of distributions back to work. It does appear that secondary supply is rising to meet demand, however, with many investors taking the opportunity to rationalise their private equity portfolios. We think this use of the secondary market to make portfolios more manageable makes sense, as long as it is allied with a strategic programme of regular commitments across the market.

REAL ASSETS AND INFRASTRUCTURE**6.0%**

Investor demand for infrastructure shows no sign of slacking – already in 2017 fundraising is higher than the record levels set in 2016. Hopes of increased supply, from the US in particular, have been deferred. Secure operational assets are highly bid, particularly the large assets attractive to the “mega” funds that raised capital in 2016. Implementation is therefore very important: value can still be found by investors who have a competitive angle in a particular deal (for example, in restructuring assets they already own) or in deals with a degree of complexity to implementation.

PROPERTY**10.0%**

Recent trends remain in place. Aggregate rental growth is slowing, although stabilising (at a rate below inflation) might now be a better description. The level of income received is growing more quickly as rent reviews take place. But capital values are again edging higher at a slightly faster rate, and so valuations become a little more stretched. Yield margins over bond markets remain healthy, but equities provide a tougher comparison. Nevertheless, the scale of underperformance against global equities over the last year argues against any disproportionate reduction in exposure.

CONVENTIONAL GILTS**2.0%**

Shifting perceptions about the outlook for global monetary policy, the vagaries of Brexit negotiations and the path of UK inflation have provided (and will doubtless continue to provide) plenty of scope for short-term speculation. The net effect this year has been to leave the gilt yield curve barely changed. So, it is the implication of a peak in interest rates of under 3% p.a. that continues to underpin our negative view. Long-dated forward reinvestment rates around 1% p.a. argue that long-term investors (more precisely, those with no need to hedge) should stay short.

INDEX-LINKED GILTS	5.0%
<p>Real yields have edged a little higher this year, but the rationale for a negative view on conventional gilts still holds good here. The relative attractions of index-linked have improved a little, but as has been the case for much of the time in recent years, it is shorter maturities that look to offer the best relative value.</p>	
INVESTMENT-GRADE CREDIT	2.5%
<p>Spreads are little better on a like-for-like basis than in the halcyon days of the mid-2000s. As for credit markets in general, we think it is worthwhile exploring the possibility of returns to factors other than credit risk. The yield spreads on ABS compare favourably with those on traditional corporate bonds for those willing to accept the more complex structures involved.</p>	
OTHER CREDIT	2.0%
<p>It seems plausible that concerns about financial instability in the wake of the reach for yield lie behind the beginning of the end of QE and credit markets may be particularly exposed to the start of the unwinding of programmes. Valuations are, in any case, at a level where we would be looking to take less pure credit risk than usual – it seems increasingly worthwhile to sacrifice liquidity in favour of credit quality. We still value the strategic diversification offered by credit markets and are comfortable with investment in short-dated instruments in current circumstances.</p>	
EMERGING MARKET DEBT (EMD)	2.5%
<p>Investors' renewed enthusiasm for emerging market risk since late last year has pushed yields on the main local currency indices to their lowest levels since the start of 2015. They have only been significantly lower in the last frenzy of enthusiasm for emerging markets between mid-2012 and mid-2013. Economic and financial conditions (most of all the weak US dollar) remain supportive and yields relative to developed markets are still healthy, but a degree of caution is appropriate after a rally of this scale.</p>	
INSURANCE-LINKED SECURITIES	3.0%
<p>The evidence from recent transactions is of stable reinsurance prices – a contrast to the falls of recent years. Consistent with this, there seems to have been little further narrowing of yield spreads on catastrophe bonds – a contrast to the ratcheting down of spreads in credit markets. Even though valuations are still stretched relative to historic norms, these recent relative movements reinforce the strategic case for insurance-linked securities as a diversifier in income-focused portfolios.</p>	
CASH	2.0%
<p>Almost all assets have done well in a difficult economic environment in recent years, but we are increasingly doubtful that can be sustained or that everything will do well if the economic environment improves. The case for holding more cash than normal to protect some capital, even at the expense of a mismatch to long-term strategic requirements, has only strengthened in recent months.</p>	

Prepared by:

Graeme Johnston, Partner

William Marshall, Partner

2 August 2017

For and on behalf of Hymans Robertson LLP

Notes

Market returns

Percentage total returns in local currency (\$ for Commodities and Hedge funds). Source: Datastream; indices as shown below.

Equities		Bonds	
UK	FTSE All-Share	Conventional gilts	FTSE-A UK Gilts All Stocks
Overseas (developed)	FTSE World	Index-linked gilts	FTSE-A UK Index Linked Gilts All Stocks
Emerging Markets	FTSE All-World	UK credit	iBoxx Non Gilts All Maturities
Property	IPD Monthly	Overseas Government	JP Morgan Global
Hedge Funds	DJ CS Hedge Fund/Core Hedge Fund	Commodities	S&P GSCI Light Energy

General Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

This page is intentionally left blank

Pensions Committee

6 September 2017

Report title	Responsible Investment Activities	
Originating service	Pension Services	
Accountable employee(s)	Michael Marshall	Responsible Investment Officer
	Tel	01902 552086
	Email	Michael.Marshall@wolverhampton.gov.uk
Report to be/has been considered by	David Evans	Head of Portfolio
	Tel	01902 552083
	Email	David.Evans@wolverhampton.gov.uk

Recommendation for action or decision:

The Committee is recommended to:

1. Approve an update to the Responsible Investment Framework in which the WMITA fund is formally included within the scope of the framework (Appendix 1).

Recommendations for noting:

The Committee is asked to note:

1. The Fund's voting and LAPFF's engagement activity for the three months ending 30 June 2017, including Appendix 2.
2. The issues discussed by LAPFF are set in the Quarterly Engagement Report which is available on their website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
3. The update provided on the recent engagement activities with Hanwha Corporation.
4. Other activity undertaken to ensure the Fund continues to develop and support its approach to Responsible Investment.
5. That the Fund has responded to a motion from Birmingham City Council calling on WMPF to divest from fossil fuels companies.

1.0 Purpose

- 1.1 To update the Pensions Committee on the work undertaken by the Investment team regarding their responsible investment activities between the period 01 April to 30 June 2017.

2.0 Background

- 2.1 The Fund has a longstanding policy of supporting good corporate governance in the companies in which it invests. The Fund will also challenge companies who do not meet either the standards set by their peers or reasonable expectations as measured by best practice. The Fund's approach is part of its overall investment management arrangements and its active responsible investment policy. There are three main areas of responsible investment that we focus on: **engagement through partnerships, voting globally** and **shareholder litigation**.

3.0 Responsible Investment Activities

Engagement through Partnerships

- 3.1 The Fund's strategy is to engage with its investee companies and other key stakeholders through partnerships and on its own. The Fund aims to protect and increase shareholder value by engaging on a range of financially material ESG investment factors. A significant part of the Fund's engagement program is implemented through partnerships including the Principles for Responsible Investment (PRI), the Local Authority Pension Fund Forum (LAPFF), Institutional Investors Group on Climate Change (IIGCC) and the UK Pension Fund Roundtable.
- 3.2 Through LAPFF, the Fund engaged with 28 companies during the quarter. Most engagements concerned remuneration, climate change or general governance issues. Fifteen engagements led to a small, moderate or substantial improvement or a change in process. Most engagements were conducted by meetings arranged with the company Chair. On the subject of climate change, LAPFF engaged BP, Shell, Rio Tinto and Total, and the topics discussed included stranded assets, GHG emissions targets, carbon pricing, scenario analysis and the link between remuneration and climate change risk management. A summary of LAPFF's engagement activities for the quarter are provided alongside the voting activity report in Appendix 2. The issues are set out in the Quarterly Engagement Report which is available on LAPFF's website:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>
- 3.3 Through the United Nations' Principles for Responsible Investment (PRI), the Fund is currently a support investor to four engagement topics, each of which concerns a number of holdings. As previously reported the Fund is a participant in engagements concerning (i) water scarcity risk in the supply chains of food & beverage and apparel companies, (ii) human rights risks in companies involved in the extractives sector and (iii) cyber security risk. West Midlands Pension Fund (WMPF) has recently decided to join an engagement on climate change risk which will be based upon the framework created by the Transition Pathway Initiative (TPI), of which the Fund is a founding member. This engagement will also be channelled through the PRI.

- 3.4 In June the Fund's RI Officer took the opportunity to attend the AGM of National Express Plc to challenge the Board on progress with union relations in the US. Attendance at the AGM was facilitated by LAPFF, including background research and preparation, and a member of LAPFF was in attendance at the AGMs. Following the AGM, National Express met with the US union, marking an improvement in company-union relations. WMPF's engagement is expected to conclude.
- 3.5 The Fund's RI Officer attended the AGM of National Grid Plc to ask a question about climate change risk. The officer asked the board whether the company would undertake the TCFD's recommendation to perform climate scenario analysis and disclose the results to shareholders. The company responded positively to the question and it is clear that the TCFD recommendations are already part of the company's thinking in terms of disclosing on climate risk. Whilst too late for this year's annual report, the company will have the opportunity to disclose using the TCFD's recommendations next year. WMPF will keep the situation under observation.
- 3.6 The Fund has signed a supporting letter from the Workforce Disclosure Initiative (WDI) to fifty target companies. WDI encourages companies to disclose business-relevant data concerning human capital management in a standardised and useable way.
- 3.7 Representatives from LAPFF attended an investor roundtable with Sports Direct International CEO Mike Ashley. The company has been an engagement target for LAPFF following allegations of poor labour practices at the company's Shirebrook facility (please see previous issues of LAPFF's quarterly engagement reports). Whilst some improvements in company practices have been achieved, investors would like to see the company go further to improve corporate governance and relations with employees. LAPFF representatives will also attend the Sports Direct AGM in September and continue to engage the company and communicate on progress.

Update on Cluster Munitions Engagement

- 3.8 WMPF continues to work with LAPFF on allegations of cluster munitions production at Hanwha Corporation. This follows successful engagements on the same topic with Lockheed Martin, Singapore Technologies, Textron and Alliant Techsystems. Members of the Pensions Committee were briefed in June on a positive development in this engagement. Having not received a response to its letter dated 18 April, the Chair of LAPFF has agreed to further escalate the issue. A new letter has been sent to the company. As part of the escalation of this engagement, the latest letter is being sent to the entire board (including Executive Directors and Non-Executives Directors). It is the Fund's view that it is preferable to attempt to engage the company to end its alleged involvement in cluster munitions rather than to divest (because the company would continue to manufacture the weapons following the Fund's divestment). It should be noted that engagements of this nature can often take time, but the Fund remains of the opinion that engagement is the best course of action at this point in time.

Following the June Pensions Committee meeting, the RI Officer wrote to interested scheme members on the latest developments on this issue. The Pensions Committee will continue to be kept informed of significant updates.

Voting Globally

- 3.9 The Fund currently has its own bespoke UK voting policy which our voting provider, Pensions and Investments Research Consultants Ltd (PIRC), executes on the Fund's behalf. The Fund follows the voting advice of PIRC for European, US, Japanese and Pacific region company meetings.
- 3.10 The voting activity for the quarter across markets and issues can be found in Appendix 2. During the period the Fund voted at a total of 1,745 company meetings – 231 UK, 395 European, 474 North American, 420 Japanese, 149 Asia (excluding Japan), 21 Australasian/ South African and 55 in the rest of the world. During this period there were 161 meetings where the Fund supported all the resolutions put forward by companies. Approximately 30% of the resolutions were not supported by the Fund. The largest number of resolutions that were opposed concerned the re-election of directors (usually voting against non-independent non-executive directors where the Fund or its advisors do not see sufficient independent oversight on a company board) and remuneration. This year saw the roll out of a large number of new remuneration policies – which will be in place for three years – at UK companies.
- 3.11 The “voting season” – a three-month window in which most investee companies hold their AGMs – began in April. Following this period, the Fund has decided to join forces with other responsible owners in writing joint letters to companies explaining the rationale for votes against management and setting expectations for the next 12 months. The Fund will seek meetings with companies where concerns are particularly acute. Four companies have been initially identified for joint letter writing. It is expected that this number will grow as the Fund identifies companies to which it will write directly.

Shareholder Litigation

- 3.12 As mentioned above, the pursuit of litigation against investee companies forms part of the Fund's Responsible Investment Framework. The fund partakes in shareholder litigation activities where it thinks monies can be recouped on behalf of the fund's members and where there is no risk of cost or penalty to the fund. Litigation is not considered unless the costs and benefits are known.
- 3.13 The Fund's shareholder litigation programme has continued in the manner reported previously.

Fossil Fuel Divestment

- 3.14 In July 2017 Birmingham City Council (BCC) voted in favour of a motion calling for WMPF to divest from companies involved in the coal, oil and gas industries (“fossil fuel companies”) over a period of five years. BCC's representative on the Pensions Committee has been mandated to bring forward this motion. The Fund has responded in line with the agreed RI Framework and this has been shared with Committee members for reference on issue to Cllr Khan, BCC's representative on the committee.

Other Activities

- 3.15 In-depth training on the Fund's Responsible Investment Framework was delivered to some members of the Pensions Committee in August 2017.
- 3.16 WMPF became one of the world's first asset owners to use the Taskforce on Climate-related Financial Disclosures (TCFD) framework to disclose its approach to managing climate change risk. This has been disclosed via the Fund's Annual Report for 2016-17.
- 3.17 West Midlands Pension Fund has been shortlisted for an award for Best Approach to ESG at the LAPF Investment Awards.

Responsible Investment Framework

- 3.18 The Committee is recommended to approve a minor update to the Fund's Responsible Investment Framework. The only change is to formally include the WMITA fund within the scope of the framework (Appendix 1). In practice, the Fund's RI activities already include the ITA fund, including investment stewardship and holding fund managers to account. There are no other changes to the framework at this point, but a broader review is anticipated in advance of April 2018.

4.0 Financial implications

- 4.1 The promotion of good corporate governance amongst companies in which the Fund invests is complementary to the Fund's objective of maximising financial returns, as it is widely believed that good corporate governance improves shareholder value in the long term.

5.0 Legal implications

- 5.1 This report contains no direct legal implications.

6.0 Equalities implications

- 6.1 This report contains no equal opportunities implications.

7.0 Environmental implications

- 7.1 Environmental implications are addressed through the Fund's corporate governance policy.

8.0 Human resources implications

- 8.1 This report contains no direct human resources implications.

9.0 Corporate landlord implications

- 9.1 This report contains no direct corporate landlord implications.

10.0 Schedule of background papers

10.1 LAPFF Quarterly Engagement Report April to June 2017:
<http://www.lapfforum.org/publications/qrtly-engagement-reports/>

11.0 Schedule of Appendices

11.1 Appendix 1 (Updated Responsible Investment Framework, DRAFT for approval)

11.2 Appendix 2 (Voting and Engagement Activity)



Responsible Investment Framework 2017

September 2017

Responsible Investment Framework 2017

1) Introduction

This framework defines the commitment of West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund (together: 'the Fund') to responsible investment (RI). Its purpose is to detail the approach that Fund aims to follow in integrating environmental, social and governance (ESG) issues in its investments. It is considered supplementary to the Fund's Statement of Investment Principles and thus in alignment with its fiduciary duty.

1.1 Beliefs and Guiding Principles

The Fund's RI beliefs and guiding principles underpin its RI approach and are described below.

ESG Integration

The Fund believes that effective management of financially material ESG risks should support the Fund's requirement to protect returns over the long term. With regard to climate change risks, the Fund recognises that the scale of the potential impacts is such that a proactive and precautionary approach is needed in order to address them.

The Fund considers RI to be relevant to the performance of the entire Fund across asset classes.

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's investment objectives and strategy.

The Fund recognises the need to operate at a market-wide level to promote improvements that will help it to deliver sustainable long-term growth.

Engagement Versus Exclusion

Investee companies with robust governance structures should be better positioned to handle the effects of shocks and stresses of future events. There is risk but also opportunity in holding companies that have weak governance of financially material ESG issues. Thus, the Fund prefers to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a divestment approach. The Fund extends this principle of 'engagement for positive change' to the due diligence, appointment and monitoring of external fund managers who are at an early stage of developing its RI approach.

The Fund believes that it will improve its effectiveness by acting collectively with other like-minded investors because it increases the likelihood that it will be heard by the company, fund manager or other relevant stakeholder compared with acting alone.

Fees and Incentives

Managing fees and costs matter in low-return environments. Fee arrangements with external fund managers – as well as the remuneration policies of investee companies – should be aligned with the Fund's long-term interests. The Fund recognises that it is part of its fiduciary duty to ensure that there is appropriate alignment.

An Evolving and Flexible Approach

The Fund recognises that it, along with the entire investment chain, is on a journey with respect to RI. This framework will remain flexible and will evolve over time to reflect evolving market developments.

1.2 Oversight and Application

The Pensions Committee is at all times responsible for the Fund's investments, including oversight of the RI strategy. Responsibility for oversight of the Fund's RI framework sits with the Strategic Director of Pensions. This policy applies to all members of the Pensions Committee and the Fund officers.

The Pensions Committee will review this policy at a minimum annually (in June of each year), or at such time as the Fund sees fit to revise its RI policies and procedures.

1.3 Content

The RI framework is divided into two distinct sections:

- What the Fund expects of itself, companies and fund managers with respect to RI (Section 2).
- How the RI beliefs and guiding principles are implemented in practice (Section 3).

Definitions are also provided in Section 4.

2) RI Expectations

2.1 Fund

2.1.1 General

The Fund aims to:

- 1) Be aware of and monitor financially material ESG issues in the context of investment and manager selection. Depending on the asset class and nature of the proposed mandate or vehicle, the Fund will monitor:
 - ESG issues in relation to internally managed investments (equities, direct property);
 - the extent to which the external managers incorporate ESG issues into their investment processes; and
 - hold external managers to account for improvement in their ESG performance over a reasonable timeframe.
- 2) Make full use of its ownership rights, including voting and engagement activities. Either directly, collaboratively or through specialist service providers:
 - hold constructive dialogue with listed companies;
 - encourage the disclosure by companies of ESG issues; and

- participate in the development of public policy on ESG issues.
- 3) Disclose and maintain a policy for identifying and managing conflicts of interest with the aim of taking all reasonable steps to put the interests of the Fund's beneficiaries first.
 - 4) Participate as a signatory to the Principles of Responsible Investing (PRI) a principles-based framework designed to encourage the incorporation and analysis of ESG into investment decision-making.
 - 5) Keep our beneficiaries aware of our RI activities through:
 - making its RI policy documents public, eg. voting policies, RI policy;
 - providing a summary of the Fund's RI activities in the annual report;
 - publishing aggregate voting and company engagement statistics on a quarterly basis
 - tracking its progress on implementing its RI strategy using the PRI framework.
 - 5) Strive to be a good corporate citizen, in alignment with what we expect of companies in which we invest.

2.1.2 Climate Change

The Fund aims to:

- encourage improvement in the level of disclosure by companies of material climate change impacts through collaborative initiatives, for example via our partnership with the LAPFF, the Carbon Disclosure Project (CDP), and the Institutional Investors Group on Climate Change (IIGCC);
- support – and where applicable co-file – reasonable shareholder proposals to disclose/justify a company's approach to climate change risk;
- review its fund managers to understand their approach to incorporating climate change considerations and encourage improvements in identifying and assessing the potential impact of climate change;
- contribute to public policy with regard to climate change as it relates to investment considerations through participation with organisations such as the IIGCC. In support of this aim, the Fund is a signatory to the Global Investor Statement on Climate Change¹;
- increase awareness of climate change as it applies to investment decision making through participation in relevant industry forums and collaborative initiatives; and

- keep up to date on the latest research and thinking on the financial materiality and interconnectedness of climate change within and across asset classes.

2.2 Companies

The Fund expects UK companies to adhere to the UK Corporate Governance Code² on a comply or explain basis. Further, the Fund has bespoke UK corporate governance guidelines which are available on its website³, which aim to deal with issues that are either not covered by the Code, require greater emphasis or are specifically left open for shareholders to resolve with company boards.

The Fund expects companies outside the UK to adhere to international voting principles⁴, recognising local application and development.

Environmental and Social Risks

The Fund expects companies to manage and disclose its environmental and social risks to the extent required for an understanding of the development, position and performance of the company. In alignment with the Association of British Insurers' position⁵, there are aspects of environmental and social reporting on which the Fund places particular value given their relevance across all sectors, its holistic approach to risk management, and the view that owners should not micro-manage companies. This is narrative reporting which:

- sets ESG risks in the context of the whole range of risks and opportunities facing the company;
- contains a forward looking perspective; and
- describes the actions of the board in mitigating these risks.

In terms of the specific environmental and social issues to focus upon, the Fund prefers to take a case-by-case, sector-based approach.

2.3 Fund Managers

2.3.1 Due Diligence

The Fund collects the following information from each manager before they are appointed where applicable to the asset class:

- Copy of their ESG, active ownership policies or equivalent which articulates how ESG factors (stemming from research, active ownership activities or other sources) are integrated into their investment process
- Case studies or examples of where ESG issues have influenced an investment decision

¹ <http://www.iigcc.org/publications/publication/2014-global-investor-statement-on-climate-change>

² <https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-2014.pdf>

³ <http://www.wmpfonline.com/article/5693/Voting-Globally>

⁴ Draws from international best practice corporate governance standards such as OECD and ICGN: <http://www.wmpfonline.com/article/5693/Voting-Globally>

⁵ https://www.ivis.co.uk/media/5893/ABI_RID_guidelines.pdf

- Information on the process for integrating any third party ESG data (for example, MSCI) into their company financial models, investment strategies and portfolio construction
- RI reporting format
- Whether they are a signatory of the UN-backed Principles for Responsible Investment (PRI) and Stewardship Code, copy of their PRI public report and annual assessment scores if applicable.

2.3.2 Appointment

The Fund assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, the Fund takes a balanced consideration of all relevant factors including ESG. However, the Fund will pay particular attention to adherence to relevant soft regulatory codes⁶ depending on the market in which it invests.

In practice, this means the Fund is willing to hire a fund manager at an early stage of developing its RI approach so long as there is a demonstrable RI commitment and a willingness to improve in their approach over time. In alignment with our guiding principles on 'engagement versus exclusion', the Fund believes that there is added value in working with them to improve their approach.

2.3.3 Monitoring and Reporting

Each external fund manager is expected to report⁷ at agreed intervals to the Fund on how their RI activities are contributing to improved long-term risk-adjusted returns. Examples of information that can be provided in aid of this objective include but are not limited to the following:

- The evolution of how the manager integrates the consideration of ESG issues into its investment and active ownership activities.
- How investment and active ownership functions are combined to protect and/or enhance shareholder value
- How the manager exercised the Fund's voting rights.
- Any outcomes arising from the manager's engagement with companies and their effectiveness.

Further details on the Fund's future expectations of listed equity fund managers on RI reporting can be found on the Fund's website here:

<http://www.wmpfonline.com/article/5708/Engagement-through-partnerships>

3) RI Implementation

The Fund's active ownership approach can be divided into three distinct areas: **voting globally**, **engagement through partnerships** and **shareholder litigation**. This section briefly outlines the Fund's processes for each.

3.1 Voting Globally

Where practical⁸, the Fund aims to vote in every single market in which it invests. In the interests of sending a consistent signal to investee companies, the Fund has decided to use a third party provider for analysis of governance issues and executing its proxy voting rights across all markets in which it invests. At the present time, the Fund believes that the advantage of a consistent signal outweighs the inherent disadvantages to disconnecting the voting function from the investment and engagement decisions of external fund managers. However given market developments in this area, the Fund will re-evaluate this position on a yearly basis.

Reference to the Fund's voting policies is provided in Section 2.2 under 'Company Expectations'.

Securities Lending Programme

The Fund has an active securities lending programme. To ensure that the Fund is able to vote all its shares at important meetings has worked with service providers to establish procedures to restrict lending for certain stocks and recall shares in advance of shareholder votes. The Fund monitors the meetings and proportion of the securities on loan, and will restrict and/or recall lent stock in select circumstances.

3.2 Engagement Through Partnerships

The Fund uses various engagement platforms to maximise its influence as an active owner in collaboration with other like-minded investors. The Fund's primary engagement partnerships are highlighted below.

Local Authority Pension Fund Forum

The Fund is a founding member of the Local Authority Pension Fund Forum (LAPFF) and the Fund's Strategic Director of Pensions is the Honorary Treasurer. LAPFF is the UK's leading collaborative shareholder engagement group encompassing 70 local authority pension funds from across the country with combined assets of over £175 billion. The Fund is an active participant in LAPFF's engagement programs. Membership of LAPFF provides the Fund with:

- independent research and advice on the ESG risks of companies to inform further stakeholder engagement;
- advice on the governance practices of companies;
- a forum to engage with companies to improve governance practices; and

⁶ For example, UK and Japanese Stewardship Codes

⁷ Refers to either formal written reporting and to informal verbal communications, which can be regular and/or ad-hoc in frequency.

⁸ Issues such as power of attorney or share blocking in certain markets may prevent the Fund's ability to do so

- proxy voting advice on proxy voting for annual general meetings.

UN-backed Principles for Responsible Investment

The Fund signed the PRI in 2011 and the Fund's Assistant Director (Investments) is a member of the PRI Board⁹. The PRI is a set of six aspirational principles¹⁰ designed to encourage and assist investors integrate ESG into their investment processes.

The Fund is an active participant in the PRI's engagement program. The Fund considers the following criteria amongst others in determining its participation in PRI-related initiatives:

- Initiative is in alignment with the Fund's RI policy.
- The ESG issue or company of concern is considered to be particularly material to the Fund.
- Certain impediments (eg. geographic) make investor collaboration the preferred option.

Industry Engagement

In collaboration with other like-minded investors, the Fund may engage with public policy makers, regulators, trade bodies, indexes and other players in the financial markets to achieve the aim of promoting sustainable growth. The Fund considers these initiatives on a case-by-case basis.

3.3 Shareholder Litigation

The Fund frequently hold securities that are the subject of individual and class action securities litigation. There are a number of litigation options available when a company has violated securities laws that result in losses to the Fund.

For US-based claims, the options would be to:

- remain in the class action and file proof of claim through our claims administrator Goal Group;
- participate as a lead plaintiff in a class action; or
- opt out and file a private action.

For non-US based claims, the options would be to join an existing group action or file a group action as a lead plaintiff.

The Fund takes a case-by-case approach in determining whether or not to join a class action but considers factors such as:

- advantages and disadvantages of the Fund becoming actively involved;
- relative size of the Fund's potential losses compared to other organisations;
- likelihood of success; and

- whether the Fund is fully indemnified against costs, expenses, counterclaims and any other losses.

4) Definitions

Responsible Investment

The integration of environmental, social and corporate governance (ESG) considerations into investment management processes and active ownership practices in the belief that these factors can have an impact on financial performance.¹¹ The Fund also supports the PRI's definition of responsible investment which can be found here:

<http://www.unpri.org/introducing-responsible-investment>

ESG

Environmental, social and governance factors which may impact on company performance and therefore investment returns. Examples include resource management and pollution prevention, climate change impacts, labour management, product integrity, executive compensation, board independence and audit function.

Governance

The process and principles by which a company or organisation undertakes its business. For the Fund, governance includes how it undertakes both its operational and investment responsibilities on behalf of its members.

Active Ownership

Refers to the responsibility of the Fund to participate, where appropriate, in the governance decision-making of companies in which it invests by way of voting and by engagement with company management, either directly or via its fund managers. It also recognizes the relevance of engaging with regulatory bodies and other market players to support policies that promote long-term sustainable growth.

Fund

West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund

Pensions Committee

Body established by City of Wolverhampton Council (the administering authority) in charge of the management of the administration of benefits and strategic management of the Fund's assets, which has representation from the seven West Midlands metropolitan district councils and local trade unions.

⁹ <http://www.unpri.org/about-pri/pri-governance/pri-association-board-members/>

¹⁰ The six principles can be found here: <http://www.unpri.org/about-pri/the-six-principles/>

¹¹ Mercer, ABC of ESG, 2014

Investments Division
PO Box 5327
Wolverhampton
WV1 9LS
United Kingdom

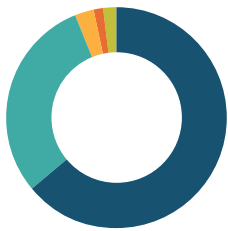
DRAFT

April to June 2017

Voting report

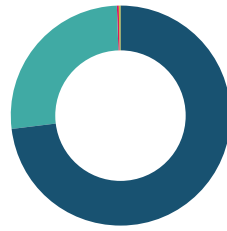
Over the last quarter, we voted at 1,745 meetings (24,939 resolutions). At 1,584 of those meetings, we opposed or abstained one or more resolutions. We supported management on all resolutions at 161 meetings.

Total
We voted at 1,745 meetings (24,939 resolutions) over the quarter.



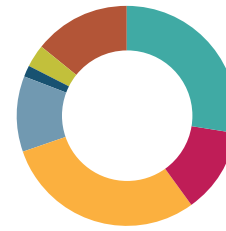
■ Total resolutions voted in favour	63.8%
■ Resolutions where voted against or abstained	30.0%
■ Non-voting	2.7%
■ Withheld	1.5%
■ US Say on Pay	1.7%

UK & British Overseas
We voted at 231 meetings (3,977 resolutions) over the quarter.



■ Total resolutions voted in favour	73.3%
■ Resolutions where voted against or abstained	26.5%
■ Withdrawn	0.1%
■ US Say on Pay	0.1%

UK: votes against and abstentions by category



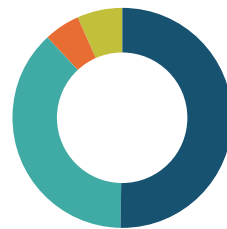
■ Remuneration	27.6%
■ Annual reports	12.5%
■ Directors	29.9%
■ Auditors	11.0%
■ Corporate donations	1.7%
■ Share capital	3.5%
■ Other	13.9%

Europe & Global EU
We voted at 395 meetings (6,967 resolutions) over the quarter.



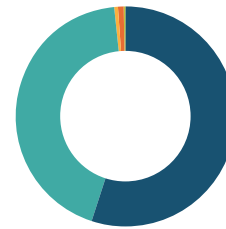
■ Total resolutions voted in favour	55.4%
■ Resolutions where voted against or abstained	34.6%
■ Non-voting	9.5%
■ US Say on Pay	0.1%

USA & Canada
We voted at 474 meetings (6,499 resolutions) over the quarter.



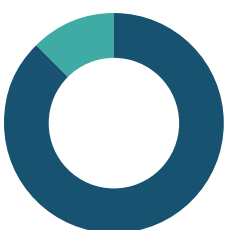
■ Total resolutions voted in favour	50.4%
■ Resolutions where voted against or abstained	37.6%
■ Withheld	5.4%
■ US Say on Pay	6.5%

Asia
We voted at 149 meetings (1,400 resolutions) over the quarter.



■ Total resolutions voted in favour	55.0%
■ Resolutions where voted against or abstained	43.6%
■ Non-voting	0.4%
■ Withheld	0.8%
■ US Say on Pay	0.1%

Japan
We voted at 420 meetings (5,368 resolutions) over the quarter.



■ Total resolutions voted in favour	87.7%
■ Resolutions where voted against or abstained	12.3%

South America
We voted at 29 meetings (212 resolutions) over the quarter.



■ Total resolutions voted in favour	51.9%
■ Resolutions where voted against or abstained	41.5%

Rest of the World
We voted at 26 meetings (355 resolutions) over the quarter.



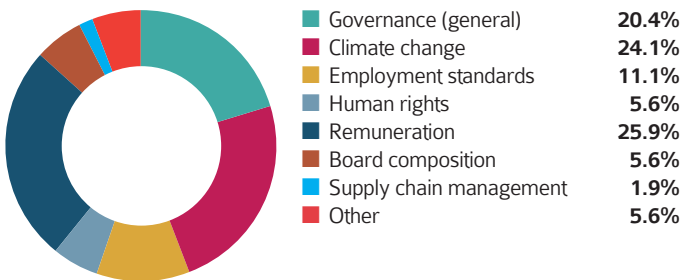
■ Total resolutions voted in favour	54.1%
■ Resolutions where voted against or abstained	45.9%

April to June 2017

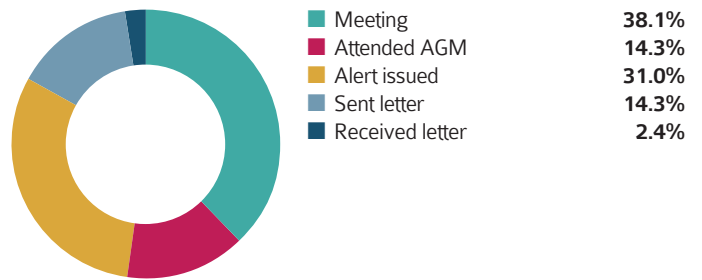
Engagement summary

Over the last quarter, the Local Authority Pension Fund Forum (LAPFF) engaged with 28 companies on a range of environmental, social and governance issues on behalf of the Fund and other members. Where applicable, LAPFF will engage with companies on more than one issue simultaneously. The engagements included in these figures are supplementary to our voting-based engagements during proxy season.

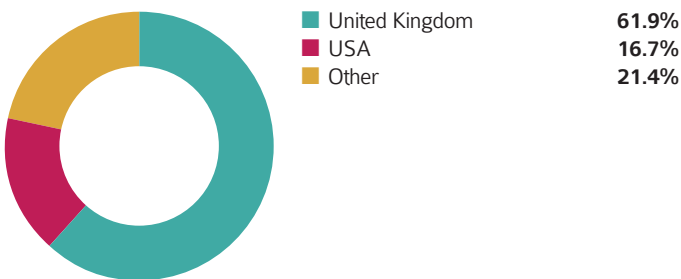
Engagement by topics



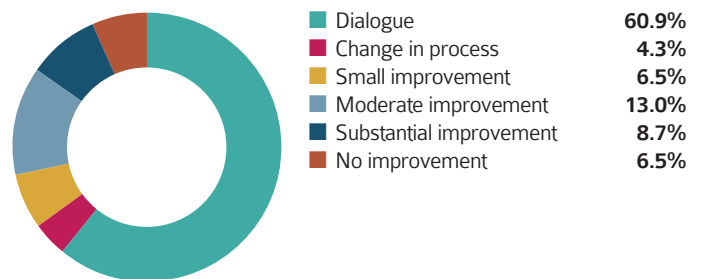
Engagement by activities



Engagement by domicile



Engagement by outcomes



Pensions Committee

6 September 2017

Report title	MiFID II – opt up to professional client	
Originating service	Pension Services	
Accountable employee(s)	Jason Fletcher	Chief Investment Officer
	Tel	01902 555780
	Email	jason.fletcher@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is recommended to:

1. Approve the opt-up of the Funds to Professional Client status.
2. Authorise the Director of Pensions to request the Funds' existing investment managers treat both the West Midlands Pension Fund and West Midlands Integrated Transport Authority Fund as Professional Clients.
3. Require all future manager appointments (including LGPS Central) are subject to classification of the Fund as a Professional Client.
4. Confirm the delegations in place in relation to investment decisions as summarised in 4.6 of the report.

Recommendations for noting:

The Committee is asked to note:

1. The greater clarity now available on the criteria local authorities administering LGPS pension funds must meet to "opt-up" and retain Professional Client status.
2. The protections available to Retail Clients which are not available following opt-up to Professional Client.
3. The impact reclassification to Retail Client would have on the Funds' ability to invest.

1.0 Purpose

- 1.1 To update Committee on the final policy statement issued by the FCA in July 2017, confirming the rules for implementation of an EU directive which will (without action) impact on the client categorisation of Local Government Pension Scheme's and the Fund's ability to implement investment strategy.

2.0 Background

- 2.1 The Markets in Financial Instruments Directive (MiFID II) is the EU Legislation that regulates firms who provide services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives) and the venues where those instruments are traded.
- 2.2 European Commission instigated a review of MiFID due to increasing complexity of financial products and issues related to the 2008 financial crisis. The outcome of the review was a revised Directive, MiFID II, which is to take effect from 3 January 2018.
- 2.3 During 2016 and early 2017, the FCA consulted on the implementation proposals for MiFID II. On 3 July, the FCA published a policy statement setting out the final rules on a number of matters
- 2.4 The key element to the new legislation is the classification of clients (including pension funds) as being Retail or Professional. The proposed rules will re-classify all LGPS pension funds as Retail clients in a change from their current status as Professional client. This will put restrictions on LGPS pension funds investments, could lead to requirement to offload certain assets (for example, private equity funds) and could potentially impact the fee rates funds are charged.

3.0 Final policy statement

- 3.1 Although the FCA reiterates that it is a requirement for local authorities to be reclassified as Retail clients by default it has acknowledged that the LGPS has its own governing regulations and oversight bodies and has amended the opt-up criteria to enable LGPS funds to opt-up to Professional client status.
- 3.2 The final criteria remains a combination of qualitative and quantitative tests but critically specific reference has been added to enable clients who are administering authorities of LGPS funds to meet these.
- 3.3 The statement acknowledges LGPS governance arrangements and role of elected members, enabling investment managers to take a collective view of the expertise, experience and knowledge of committee members, supported by officers and advisers.

4.0 Opt up process and considerations

- 4.1 The classification of investors (including both the West Midlands Pension Fund and West Midlands Integrated Transport Authority Pension Fund) under MiFID II is determined by each individual investment manager. The Fund will need to approach each one to request “opt-up” and seek confirmation of the manager’s classification of the Fund. With limited transitional arrangements likely to be available, this process will need to be prioritised to ensure the Fund has the status required to continue to implement investment strategy, ahead of the new rules coming into effect from 3 January 2018.
- 4.2 The Fund has prepared a template letter and completed questionnaire ready for issue to all managers, based on a template created by the LGA, in conjunction with Investment Association.
- 4.3 A manager is under no obligation to “opt-up” the Fund and will seek assurance from the Fund that it understands the higher level of regulatory protection offered to Retail client, that will be waived on re-classification to Professional client.
- 4.4 Appendix 1 includes a schedule of warnings in relation to the protections provided to Retail clients which are not in place for Professional clients. A number of these relate to assumed knowledge and disclosure of information. It should be noted that the Fund is currently treated as a Professional client and does not therefore currently have these protections. It should also be noted that other occupational pension funds in the UK will automatically be classified as Professional clients under the new rules.
- 4.5 Subject to confirmation from the Committee that it would like Funds to continue to elect Professional client status and authorisation to the Director of Pensions to proceed with the opt-up process, Fund officers will make the necessary arrangements to ensure managers reclassify the Funds with effect from 3 January 2018. Any new manager appointments will be subject to the manager’s classification of the Fund as a Professional client.
- 4.6 As part of the opt-up process, the Administering Authority is required to confirm delegations in place in relation to investment decisions. These are summarised below for completeness.
- Wolverhampton City Council as the Administering Authority for West Midlands Pension Fund has delegated under Section 101 Local Government Act 1972 the responsibility for the management and administration of the pension fund, including investment management, to its Pension Committee.
 - A copy of the Council’s constitution showing this delegation can be found by following the link at the end of this report.

- In addition, the Pension Committee under Section 101 Local Government Act 1972 has delegated to its Director of Pensions the responsibility for the administrative and investment management of the Pension Fund, as shown in the Council's constitution (page 183).
- The West Midlands Integrated Transport Authority as Administering Authority for the West Midlands Integrated Transport Authority Pension Fund (ITA Fund), delegated to the Pension Committee of Wolverhampton City Council, responsibility for the management and administration of the ITA Fund. That delegation was accepted and a copy of the report can be found by following the link at the end of this report.

Delegation to the Director of Pensions is governed by Section 101 Local Government Act 1972.

- The creation of the West Midlands Combined Authority, absolved the West Midlands Integrated Transport Authority and the Combined Authority became the Administering Authority for the ITA Fund. The Combined Authority adopted all existing delegations, including the delegation to the Wolverhampton City Council Pension Committee and a copy of the creation order can be found by following the link at the end of this report.

5.0 Financial implications

- 5.1 If opt up is not be achieved before the new rules become effective MiFID II could restrict WMPF's ability to make investments into its current investment strategy and may also impact on fee rates.

6.0 Legal implications

- 6.1 This report contains no direct legal implications.

7.0 Equalities implications

- 7.1 This report contains no equal opportunities implications.

8.0 Environmental implications

- 8.1 This report contains no environmental implications.

9.0 Human resources implications

- 9.1 This report contains no direct human resources implications.

10.0 Corporate landlord implications

- 10.1 This report contains no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 MiFID II Adoption – Pension Committee March 2017

12.0 Schedule of appendices

12.1 Appendix 1 – Warnings – loss of protections for the Local Authority if categorised as a Professional Client.

13.0 Schedule of background papers

13.1 Section 101 Local Government Act 1972 -
<http://www.legislation.gov.uk/ukpga/1972/70/section/101>

13.2 City of Wolverhampton – The Constitution
<https://wolverhamptonintranet.moderngov.co.uk/documents/s50871/Constitution%20-%207.4.17.pdf>

13.3 Pensions Committee report, 18 March 2015, Governemce Reform 2014, Delegation of Integrated Transport Authority

<https://wolverhamptonintranet.moderngov.co.uk/documents/s9109/Governance%20Reform%202014%20Delegation%20of%20the%20Integrated%20Transport%20Authority.pdf>

13.4 The West Midlands Combined Authority Order 2016
<http://www.legislation.gov.uk/uksi/2016/653/contents/made>

This page is intentionally left blank

Warnings - loss of protections for the Local Authority if categorised as a Professional Client

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This Schedule contains, for information purposes only, a summary of the protections lost when requesting and agreeing to be treated as a Professional Client.

Part 1 – Loss of protections as a Professional Client when receiving Services

1. Communicating with clients, including financial promotions

As a Professional Client the simplicity and frequency in which firms communicate with you may be different to the way in which we would communicate with a Retail Client. Firms will ensure however that their communication remains fair, clear and not misleading.

2. Information about the firm, its services and remuneration

The type of information that a firm provides to Retail Clients about itself, its services and products and how it is remunerated differs to what it provides to Professional Clients. In particular,

- a) It is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients;
- b) the information which it provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, it is required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- c) when handling orders on behalf of Retail Clients, it has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

3. Suitability

In the course of providing advice or in the course of providing portfolio management services, when assessing suitability for Professional Clients, a firm is entitled to assume that, in relation to the products, transactions and services for which Professional Clients have been so classified, that they have the necessary level of experience and knowledge to understand the risks involved in the management of their investments. Firms cannot make such an assumption in the case of Retail Clients and must assess this information separately. Firms would be required to provide Retail Clients with a suitability report, where they provide investment advice.

4. Appropriateness

For transactions where a firm does not provide investment advice or portfolio management services (such as an execution-only trade), a firm may be required to assess whether the transaction is appropriate for the client in question. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, a firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

5. Dealing

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in determining best execution.

6. Reporting information to clients

For transactions where a firm does not provide portfolio management services (such as an execution-only transactions), the timeframe for providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

7. Client reporting

Firms that manage a retail portfolio that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

8. Financial Ombudsman Service

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

9. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

10. Exclusion of liability

A firms' ability to exclude or restrict any duty of liability owed to clients is narrower under the FCA rules in the case of Retail Clients than in respect of Professional Clients.

11. Trading obligation

In respect of shares admitted to trading on a regulated market or traded on a trading venue, a firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

12. Transfer of financial collateral arrangements

As a Professional Client, a firm may conclude title transfer financial collateral arrangements for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

13. Client money

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

Part 2 – Loss of protections for the Local Authority as a potential investor if categorised as a Professional Client for the purposes of Fund Promotions

1. Fund promotion

It is generally not permitted for firms to market alternative investment funds (AIFs) to investors who are Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will (subject to complying with applicable marketing rules) be generally permitted to market shares or units in AIFs to you, without being subject to this restriction.

2. Non-mainstream pooled investments

For the purposes of the UK regulatory regime, AIFs typically fall within the definition of an “unregulated collective investment scheme”. The UK regulator considers unregulated collective investment schemes to be a high-risk investment, which are not generally suitable investments for Retail Clients. As such, firms are not permitted to promote investments in unregulated collective investment schemes to Retail Clients (although there are certain limited exceptions to this rule). As a Professional Client, firms will be generally permitted to promote an investment in unregulated collective investment schemes to you, without being subject to this restriction (and without making any assessment of whether the investment would be suitable or appropriate for you).

3. Communicating with clients, including financial promotions

Detailed rules govern generally the form and content of financial promotions which are issued to investors who are Retail Clients. However, these detailed form and content rules apply less rigorously where a promotion is issued only to investors who are Professional Clients. As a Professional Client, firms will be generally permitted to issue promotions to you which do not satisfy the detailed form and content rules for Retail Clients. Firms must ensure however that communications remain fair, clear and not misleading.

4. Financial Ombudsman

The services of the Financial Ombudsman Service may not be available to you as a Professional Client

5. Investor compensation

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Your rights (if any) to make a claim under the Financial Services Compensation Scheme in the UK will not be affected by being categorised as a Professional Client.

Pensions Committee

6 September 2017

Report title	Annual Report and Accounts 2016/17	
Originating service	Pension Services	
Accountable employee(s)	David Kane	Head of Finance
	Tel	01902 554423
	Email	david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendation for action or decision:

The Committee is recommended to approve:

1. The Annual Report for the year ending 31 March 2017, and its publication on the Fund's website following completion of the external audit.

Recommendations for noting:

The Committee is recommended to note:

1. Grant Thornton's Audit Findings Report.
2. That the Management Representation letter has been finalised and will be signed by the Chair on behalf of the Fund.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the audited annual report for the year ending 31 March 2017, and its publication on the Fund's website.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual report and statement of accounts. These must be subject to external audit, and published no later than 30 September (accounts) and 1 December (annual report).
- 2.2 The draft Annual Report and Accounts were presented to Committee on 21 June, and have since been audited by the Fund's external auditor, Grant Thornton who will attend the Committee to present their findings.

3.0 Audit Findings

- 3.1 The Audit Findings Report on the Integrated Transport Authority (ITA) Fund was presented to the Committee meeting on 21 June. It was reported that Grant Thornton anticipated issuing an unqualified audit opinion on the ITA Fund accounts, and that they had identified no significant internal control weaknesses. This is now confirmed, with Grant Thornton who have signed their audit opinion on 26 July.
- 3.2 Subject to the finalisation of certain audit work that was outstanding at the time of writing (and which is set out in Grant Thornton's report), it is anticipated that Grant Thornton will issue an unqualified audit opinion for the main fund. In addition to this, no significant internal control weaknesses have been identified.
- 3.3 The audit process has proceeded largely as planned, with no significant obstacles being encountered. No significant changes will be made to either Fund's set of accounts.
- 3.4 There have therefore been no changes in the bottom line of the Fund Accounts or the Net Assets Statements, meaning that the value of West Midlands Pension Fund at 31 March 2017 remains at £14.3 billion, with the increase in value during the 2016/17 year being £2.6 billion, and the value of the ITA Fund remains at £502.8 million, with the increase for the year being £42.0 million.
- 3.5 Grant Thornton's findings arising from the audit of the main fund are summarised in their 'Report to those charged with governance' (ISA 260 report) (at the time of preparing this report, a draft report from Grant Thornton was not yet available, however it will be distributed to Committee members as soon it is available).
- 3.6 In accordance with international auditing standards, the Fund is required to confirm to the external auditor that it has complied with all relevant requirements and provided all relevant information to the auditor. This takes the form of a Management Representation letter, which has been prepared and which will be signed by the Chair prior to submission to the auditor.

4.0 Publication

- 4.1 It is recommended that the Annual Report and Accounts be formally approved by the Committee for publication, subject to the finalisation of Grant Thornton's audit work. This will be well in advance of the statutory deadline of 1 December.
- 4.2 The updated Annual Report can be found on the Fund's website by following the link, <http://www.wmpfonline.com/annualreports>. A copy will be made available at the Committee meeting.
- 4.3 The consolidated national Scheme Annual Report will be published by the Scheme Advisory Board in due course.

5.0 Financial implications

- 5.1 The financial implications are discussed in the body of the report.

6.0 Legal implications

- 6.1 This report contains no direct legal implications for the authority.

7.0 Equalities implications

- 7.1 This report has no equalities implications.

8.0 Environmental implications

- 8.1 This report has no environmental implications.

9.0 Human resources implications

- 9.1 The report has no human resources implications.

10.0 Corporate landlord implications

- 10.1 This report has no corporate landlord implications.

11.0 Schedule of background papers

- Draft Annual Report and Accounts 2016/17, Report to Pensions Committee, 21 June 2017

This page is intentionally left blank

Pensions Committee

6 September 2017

Report title	Service Plan Monitoring 2017/18 and Quarterly Accounts June 2017	
Originating service	Pension Services	
Accountable employee(s)	David Kane	Head of Finance
	Tel	01902 554423
	Email	david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is recommended to note:

1. The Performance against the Fund's key performance indicators as at the end of June 2017;
2. The forecast outturn against operating budgets as at the end of June 2017, which is an under spend of £8.8 million;
3. The quarterly accounts for the period ending 30 June 2017, which show that:
 - the value of West Midlands Pension Fund at this date was £15.1 billion, an increase of £855.5 million from 31 March 2017;
 - the value of West Midlands ITA Pension Fund at this date was £517.4 million, an increase of £14.5 million from 31 March 2017.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on performance against key performance indicators (KPIs), the forecast outturn for the year against operating budgets and quarterly accounts as at the end of June 2017.
- 1.2 The KPIs and operating budgets were approved by the Committee on 22 March 2017 as part of the Service Plan 2017-2022, a full copy of which can be found on the Fund's website: www.wmpfonline.com.

2.0 Performance against Medium Term Plan

- 2.1 A summary of performance against KPIs is included in Appendix A, and an update on progress against Corporate Priorities is included in Appendix B.

3.0 Forecast Outturn against Operating Budget 2017/18

- 3.1 The following table sets out the forecast outturn compared with the Fund's operating budget as at the end of the first quarter.

Budget Heading	Actual 2016/17 £000	Approved Budget 2017/18 £000	Forecast 2017/18 £000	Forecast Variance £000
Employees	4,759	6,270	5,712	(558)
Premises	283	300	352	52
Transport	45	83	87	4
Other Supplies and Services	478	640	676	36
Professional Fees	1,437	1,410	1,425	15
Communications and Computing	447	639	640	1
Support Services	523	558	558	-
Miscellaneous Income	(426)	(5)	(134)	(129)
Net Expenditure	7,546	9,895	9,316	(579)
External Investment Management Costs	64,146	70,200	61,999	(8,201)
Total	71,692	80,095	71,315	(8,780)
Funded by:				
West Midlands Pension Fund	70,896	79,345	70,565	(8,780)
West Midlands ITA Pension Fund	796	750	750	-
Total	71,692	80,095	71,315	(8,780)

- 3.2 Forecasts have been made using a combination of reviewing spend to date and considering plans for the remainder of the financial year. A prudent approach has been taken in forecasting the cost of those plans, and the figures set out above are therefore likely to be subject to change by year-end.
- 3.3 The forecast under spend on employee costs (£558,000) is due to posts being vacant, or in the process of being recruited to, during the year to date.
- 3.4 As at the end of June 2017, investment management costs are forecast to be £8.2 million under budget, reflecting the on-going work to streamline portfolio management arrangements. However, since these are heavily influenced by market movements and investment performance, this is particularly subject to change during the remainder of the year.
- 3.5 Taking into account internal investment management costs and fees and other costs deducted at source by fund managers, total investment management costs are forecast to be £63.8 million, as follows:

	Actual 2016/17 £000	Forecast 2017/18 £000
External Costs:		
- Invoiced	6,142	8,417
- Deducted at Source	57,358	52,982
Total External Investment Management Costs	63,500	61,399
Internal Investment Management Costs	2,217	2,439
Total Investment Management Costs	65,717	63,838

3.6 Cost-per-member is a critical measure for the Fund of its cost-effectiveness. The following table sets out the forecast cost-per-member compared to budget, using the three standard headings specified by CIPFA: administration, oversight and governance, and investment management. These figures are stated for West Midlands Pension Fund only, reflecting the £150,000 recharge to the ITA Fund. The forecast cost-per-member is lower than budgeted for each of the three headings.

	2016/17 Actual	2017/18 Budget	2017/18 Forecast
Total Administration Costs (£000)	3,303	4,660	4,446
Administration Cost per Member (£)	10.93	15.29	14.72
Total Oversight and Governance Costs (£000)	2,027	2,409	2,209
Oversight and Governance Cost per Member (£)	6.71	7.91	7.31
Number of Members	302,092*	304,774**	305,055***
Total Administration, Oversight and Governance Cost per Member (£)	17.64	23.20	22.03
Total Investment Management Costs (£000)	65,717	72,275	63,838
Investment Management Cost per Member (£)	217.54	237.14	211.32
Investment Management Cost as a Percentage of Investment Assets	0.46%	0.47%	0.42%

* As at 31 March 2017

** As estimated for purpose of 2017/18 budget preparation.

*** As at 30 June 2017

- 3.7 The Fund, like all public sector bodies, continues to be cost-conscious, and keeps its operating costs and procedures under continuous review.
- 3.8 During the 2016/17 financial year and the current year to date, the Fund has incurred costs on the set-up of LGPS Central Limited. These costs are being shared, on an equal-eighths basis, with the other seven partner funds. The total implementation budget (to April 2018) is approximately £4 million, of which £930,000 has been incurred to date.
- 3.9 West Midlands' share of this spend to date is £116,000, and its share of the total budget is £500,000. This expenditure has been capitalised as investment in the company, and therefore has not impacted on the operating budget. No costs are chargeable to the ITA Fund, as it will not be a share-holder.

3.10 Strong budget management arrangements are in place, including three-weekly reporting to the LGPS Central Programme Board. The forecast budget requirement is kept under continuous review, with any changes requiring the approval of the Programme Board.

4.0 Quarterly Accounts – West Midlands Pension Fund

4.1 Appendix C provides a Fund Account for the quarter ending 30 June 2017, and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 30 June 2017 of £15.1 billion. This is an increase of £855.5 million from the 31 March 2017 value.

4.3 These quarterly accounts have been prepared using a number of key assumptions, which are set out below:

- Past Service Deficit Contributions for the year have been recognised in full in the first quarter;
- Where employers have made up-front payments for the whole year, and in some cases for future years, these have been recognised in full in the first quarter (the combined effect of these two points is that the contributions income shown in the Fund Account is significantly more than one quarter of the total amount that will be due for the year);
- Management expenses have been calculated on an accruals basis, being equal to one quarter of the forecast net cost for the year;
- Investment income has been calculated based on income due for the period.

4.4 The main reason for the increase in the value of the Fund for the year so far is contributions receivable, amounting to £823.0 million for the quarter. In addition, gains in the value of investment assets have increased the value of the Fund by £103.0 million.

5.0 Quarterly Accounts – West Midlands ITA Pension Fund

5.1 Appendix D provides a Fund Account for the quarter ending 30 June 2017, and a Net Assets Statement as at that date.

5.2 The Net Assets Statement provides a value for the Fund at 30 June 2017 of £517.4 million. This is an increase of £14.5 million from the 31 March 2017 value.

5.3 The main reason for the increase in the value of the Fund for the year so far is gains in the value of investment assets (£14.3 million).

6.0 Financial implications

6.1 The financial implications are discussed in the body of the report.

7.0 Legal implications

7.1 This report contains no direct legal implications for the authority.

8.0 Equalities implications

8.1 This report has no equalities implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 The report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.

12.0 Schedule of background papers

- Service Plan 2017-22, Report to Pensions Committee, 22 March 2017

13.0 Schedule of Appendices

13.1 Appendix A – Key Performance Indicator Monitoring June 2017

13.2 Appendix B – Update on Corporate Priorities as at June 2017

13.2 Appendix C – West Midlands Pension Fund Quarterly Accounts 30 June 2017

13.3 Appendix D – West Midlands ITA Pension Fund Quarterly Accounts 30 June 2017

Corporate priority reference	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
D	IMPROVE FUNDING LEVEL								
A		Funding level to increase from current levels of 70%	>70%	RB	● 81.0%	31/03/16	● 70.0%	31/03/13	↑ 11.0%
C	TRANSFERS IN								
	M	Transfer in quotations processed within 10 days of receiving all the required information	90%	RB	● 76.7%	Apr 17 - Jun 17	● 76.9%	Apr 17 - May 17	↓ -0.2%
		Transfer notification of transferred in membership to be notified to the scheme member within 10 days of receiving payment	90%		● 91.9%		● 93.2%		↓ -1.3%
	TRANSFERS OUT								
	M	Transfer out quotations processed within 20 days	90%	RB	● 88.2%	Apr 17 - Jun 17	● 89.7%	Apr 17 - May 17	↓ -1.5%
		Transfer out payments processed within 10 days	90%		● 71.7%		● 77.3%		↓ -5.6%
	RETIREMENTS								
	M	Retirement options to members within 15 days	90%	RB	● 21.1%	Apr 17 - Jun 17	● 32.4%	Apr 17 - May 17	↓ -11.3%
		Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the required information.	90%		● 98.9%		● 98.2%		↑ 0.7%
		New retirement benefits processed for payment following receipt of election within 5 days	90%		● 98.8%		● 98.2%		↑ 0.6%
	DEFERRED RETIREMENTS								
	M	Retirement options to members within 15 days	90%	RB	● 81.4%	Apr 17 - Jun 17	● 77.0%	Apr 17 - May 17	↑ 4.4%
		Notification of the actual retirement benefits will be issued to the scheme member within 5 days following receipt of the New retirement benefits processed for payment following receipt of election within 5 days	90%		● 95.8%		● 96.9%		↓ -1.1%
			90%		● 96.2%		● 95.8%		↑ 0.4%
	DEATHS								
M	Acknowledgement of a death within 5 days of receiving the notification.	90%	RB	● 96.6%	Apr 17 - Jun 17	● 96.6%	Apr 17 - May 17	→ 0.0%	
	Notification of benefits payable to dependents will be issued within 5 days of receiving the required information	90%		● 85.7%		● 82.1%		↑ 3.6%	
	Payment of death lump sum will be made within 10 days of receipt of all the required information.	90%		● 100.0%		● 100.0%		→ 0.0%	
A	EMPLOYER AND MEMBER SERVICE - CALLS								
M		85% of calls received to the customer helpline to be answered.	85%	ST	● 84.7%	Apr 17 - Jun 17	● 84.0%	Apr 17 - May 17	↑ 0.7%
M		85% of calls received to the employer helpline to be answered.	85%	ST	● 94.7%	Apr 17 - Jun 17	● 94.2%	Apr 17 - May 17	↑ 0.5%
C	CUSTOMER SATISFACTION/SURVEY								
	Q	Overall <u>member</u> satisfaction score for members to be 85%.	85%	RB	● 100.0%	Apr 17 - Jun 17	● 100.0%	Apr 17	→ 0.0%
	Q	Overall <u>employer</u> satisfaction score for employers to be 90%.	90%	RB	● 100.0%	Apr 17 - Jun 17	● 100.0%	Apr 17	→ 0.0%
M		Compliments received to the Fund on a cumulative basis.		RH	● 26	Apr 17 - Jun 17	● 18	Apr 17 - May 17	↑ 8.00
B	INVESTMENT RETURNS/OVERALL FUND PERFORMANCE								
	M	Returns to be 0.5% above the benchmark (3 Yr Rolling) (West Midlands Pension Fund)	VARIANCE +/- 1%	JF/ Heads of Portfolios	BENCHMARK 10.52% ACTUAL 12.48% RELATIVE 1.96%	Jun-17	BENCHMARK 10.65% ACTUAL 12.64% RELATIVE 1.99%	May-17	↓ -0.03%
B	M	Returns to match the benchmark (3 Yr Rolling) (ITA Fund)	VARIANCE + 0%	JF/ Heads of Portfolios	BENCHMARK 9.27% ACTUAL 9.36% RELATIVE 0.09%	Jun-17	BENCHMARK 9.39% ACTUAL 9.85% RELATIVE 0.46%	May-17	↓ -0.37%
C	BENEFIT STATEMENTS								
	A	ABS produced for 100% of entitled active members by 31st August 2016	100%	RB	● 82.0%	Aug-16	● 81.0%	Oct-15	→ 1.0%
	DBS produced for 100% of entitled deferred members by 31st August 2017	100%	● 98.9%		Jun-17	● 97.0%	Aug-16	↑ 1.9%	
A	CONTRIBUTIONS RECEIVED								
	M	Main Fund 98% (total value) of contributions to be received by the due date.	98%	DK	● 98.2%	Mar-17	● 98.4%	Feb-17	↓ -0.2%
	Travel Fund 98% (total value) of contributions to be received by the due date.	98%	● 100.0%		Apr-17	● 99.7%	Mar-17	0.3%	

Corporate priority reference	Freq	Description	Target	Lead Officer	Actual (Score and RAG)	Reporting Period	Previous Score	Date Last Reported	Improvement/Deterioration
EXTERNAL ACCREDITATION									
A	M	The Fund to be shortlisted for 75% of the awards in which it is entered	75%	RH	Applications 9 No. Pending 5 No. Shortlisted 4 Percentage Shortlisted 100%	Apr 17 - Jun 17	Applications 4 No. Pending 0 No. Shortlisted 4 Percentage Shortlisted 100%	Apr 17 - May 17	→ 0.0%
	M	Retain CSE and IIP accreditations	100%	RH	100%	Apr 17 - Jun 17	100%	Apr 17 - May 17	→ 0.0%
SICKNESS ABSENCE									
A	M	Average number of days lost to sickness per FTE member of staff. Sickness absence to be under 6 days per annum per member of staff - cumulative.	6 days	ALL	4.2	Apr 17 - Jun 17 (Projection)	4.2	Apr 17 - May 17 (Projection)	→ 0.0
COST PER MEMBER									
A	Q	Administration and governance cost per member to be reduced from budgeted figure of £23.20	£ 23.20	ALL	£22.16	Jun-17	£17.64	Mar 17	↓ £4.52
TRAINING HOURS									
A	Q	Average CPD per Fund employee to be 22 hours or more.	22 hours	ALL	50.4	Apr 17 - Mar 18 (projected)	40.1	Apr 16 - Mar 17	↑ 10.3
DATA QUALITY									
A	HY	Invalid or temporary NI number	<1%		0.35%	Mar-17	0.34%	Nov-16	↓ 0.01%
		Member has no address	<5%		1.91%		2.04%		↑ -0.13%
		Member is active but has not received contributions for 12 months	<1%		N/A		N/A		N/A
		Non Active member with missing date of leaving	<1%		0.03%		0.01%		↓ 0.02%
		Active Member has no earnings in last 12 months	<1%		20.41%		5.45%		↓ 14.96%
		No entries in basic/pensionable/other salary	<1%		1.21%		1.29%		↑ -0.08%
		Member has no Contribution History	<5%		5.08%		5.08%		→ 0.00%
TRUSTEE TRAINING AND PENSIONS BOARD									
A	M	Satisfaction rate from feedback of trustee training/pension board events to be 90%.	90%	RH	100.0%	Apr 17 - Jun 17	n/a	Apr 17 - May 17	#VALUE!
		Attendance rate of trustees/board members at training events.	85%		103.3%	Apr 17 - Jun 17	n/a	Apr 17 - May 17	#VALUE!
		Amount of training provided to trustees/board members during the year.	22 hours		10.0	Apr 17 - Jun 17	0.0	Apr 17 - May 17	↑ 10.0
STAFF TURNOVER									
A	M	Staff turnover to be between 5-10% in a financial year	5% - 10%	RH	19.6%	Apr 17 - Jun 17	22.7%	Apr 17 - May 17	↑ -3.1%
AVAILABILITY OF ONLINE SERVICES									
A	M	Website and web portal to be available 95% of the time (based on working hours as monitored)	95%	RH	99.0%	Apr 17 - Jun 17	99.9%	Apr 17 - May 17	↓ -0.9%
	M	Number of occurrences web portal is unavailable	10 per month		3.3	Apr 17 - Jun 17	1.0	Apr 17 - May 17	↓ 2.3
QUARTERLY ACCOUNTS									
A	Q	Days taken to prepare quarterly accounts	20 days	DK	25.0 days	Jun-17	19.3 days	Dec-16	↓ 5.7
QUALIFICATIONS									
A	Q	At least 75% of staff to hold a relevant qualification	75%	ALL	65.9%	Jun-17	63.4%	Mar-17	↑ 2.5%
MONI									
A	M	Average number of days to for completion of IDRP cases - Stage 1	60 days	RB	47.7 days	Apr 17 - Jun 17	53.5 days	Apr 17 - May 17	↑ -5.8
		Average number of days to for completion of IDRP cases - Stage 2	60 days		53.5 days		52.0 days		↓ 1.5
COMPLAINTS MONITORING									
A	M	All complaints to be completed within 20 working days of receipt	100%	RH	98.7%	Apr 17 - Jun 2017	97.8%	Apr 17 - May 2017	↑ 0.9%

A	To be a top performing fund
B	To achieve target investment returns
C	To provide excellent customer service
D	To meet our funding strategy

FREQUENCY KEY	
A	Annual
Q	Quarterly
M	Monthly

West Midlands Pension Fund Corporate Priorities 2017 – 2022

Progress Update June 2017

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
3, 4	Ensure that the outcomes of the 2016 actuarial valuation are implemented	2017 – 2018	<ul style="list-style-type: none"> • Obtain updated Rates and Adjustments certificate and accompanying actuary's report before 31 March 	<ul style="list-style-type: none"> • Results issued and certified by 31st March. • Contributions received monitored against those certified. • Discussions ongoing with a select number of employers. • Funding update to be provided end of 2017/beginning of 2018.
2, 3	Implement and monitor the investment strategy	2017 – 2022	<ul style="list-style-type: none"> • Investment returns • Funding level 	<ul style="list-style-type: none"> • Results continue to be ahead of benchmark and target outperformance over 3 years

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
1, 3	Seek opportunities to reduce investment cost whilst retaining value for money	2017 – 2018	<ul style="list-style-type: none"> • Cost of investment management as a percentage of assets 	<ul style="list-style-type: none"> • Investment management costs (exc. transaction cost) as forecast at Q1 are estimated to be 42 bps, compared to 46 bps for 2016/17. • Continuing to review externally-managed investments for value-for-money. • Working with industry and FCA to reduce investment costs and achieve full cost transparency.
1, 3	Demonstrate cost efficiency in our dealings with members and employers, including exploring opportunities to generate revenue to reduce net administration costs	2017 – 2022	<ul style="list-style-type: none"> • Cost-per-member • Contributions received percentage • Days taken to prepare quarterly accounts 	<ul style="list-style-type: none"> • Income received from LAPFF for services of Fund's Graphic Designer. • Cost per member as forecast at Q1 stands at £21.73, below the target of £23.20. • Printer procurement being undertaken to secure cost efficiencies in the Fund's hard copy mailings. • Fees applied for bespoke employer events delivered externally.

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
3	Continue to develop the existing covenant monitoring framework to support risk monitoring and enable early engagement on affordability issues and employer exit costs	2017 – 2019	<ul style="list-style-type: none"> • Covenant risk reporting • Trigger-based engagement 	<ul style="list-style-type: none"> • Covenant framework reviewed by independent 3rd party and updated accordingly. • Updated employer covenant monitoring policy guide updated published. • Annual covenant questionnaires to be sent out in accordance with year-end reporting timescales • Covenant ratings to be refreshed based upon 2016 actuarial valuation results and revised financial information • Employer watch-list being updated to reflect revised ratings and dialogue/mitigating actions to be sought with employers on this list

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
4	Provide the highest standards of customer care to our employers and members	2017 – 2022	<ul style="list-style-type: none"> • Customer satisfaction survey (employers and members) • Employer and Member Services calls • Availability of online services • IDRPs and complaints monitoring • Implementation of customer engagement plan 	<ul style="list-style-type: none"> • Employer survey circulated, results fed back at MYR. • Customer engagement strategy meetings held every 8 weeks to discuss events and plan for next quarter • Customer service KPI's demonstrate high performance and targets met. • New process for IDRPs monitoring by compliance. • Availability of online services has increased the KPIs. • New member web portal to go live 21 August 2017

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
4	Develop customer engagement with both members and employers	2017 – 2020	<ul style="list-style-type: none"> • Customer satisfaction survey • Carry out customer journey mapping Employer peer group engagement 	<ul style="list-style-type: none"> • Customer engagement strategy implemented update meetings being held bi-monthly to review communication and website. • Customer service KPI's monitoring shows high performance and targets met. • Review of pensioner engagement undertaken with the Fund producing its own newsletter. Pensioner coffee mornings due to be held in October • Telephone surveys to be implemented for calls made to member and employer helplines

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
1,4	Demonstrate achievement of the highest standards in everything that we do through external audit, accreditation and awards	2017 – 2022	<ul style="list-style-type: none"> • Reaccreditation and shortlisting for awards • Clean audit report 	<ul style="list-style-type: none"> • Shortlisted for 90% of awards entered for the year to date. • IIP reaccreditation completed on 9 February, retained accreditation and achieved gold standard • Clean audit report achieved for year ending March 2016.
1,4	Ensure that our staff, trustees and board members have access to high quality training to ensure that they have the right skills and knowledge, and are highly motivated	2017 – 2022	<ul style="list-style-type: none"> • Training hours • Qualifications • Staff sickness • Staff turnover • Trustee attendance 	<ul style="list-style-type: none"> • Workforce development strategy in place with KPI increase on number of qualified staff. • Trustee training hours monitoring quarterly on course to meet yearly target. • Internal movement of staff showing development working well. • All spaces on trustee conferences booked.

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
1,4	Review and develop people and processes to ensure operational flexibility and efficient, high quality service delivery	2017 – 2022	<ul style="list-style-type: none"> • Skills matrix • Fund-wide briefings • Delivery of the process review plan • Retain IIP accreditation • Increased automation 	<ul style="list-style-type: none"> • Workforce development strategy. • Staff briefings held. • Review of staff appraisal, visiting external organisations. • Aligned job descriptions to make workforce flexible.
1,4	Continue to develop the Fund's electronic business model to improve data quality and ensure continued cost efficiencies	2017 – 2020	<ul style="list-style-type: none"> • Web portal registration numbers • Delivery of more frequent bulk data exchange (eg, monthly submissions) • Refresh of web portal 	<ul style="list-style-type: none"> • Working with City of Wolverhampton's Communications team for the Mail marketing system to improve electronic communications and gain better data. • New member web portal going live with marketing and promotion through Member Relationship Officer's including how to videos • Monthly data submissions to go live for all employers between April and September 2017 (differing staging dates)

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
3,4	Monitor and improve membership data cleanliness, working with employers to improve the timeliness and quality of data received and reduce the number of outstanding data items	2017 – 2019	<ul style="list-style-type: none"> • Monitoring against statutory record-keeping requirements • Progress against data improvement plans • Monitoring and reporting on employer performance • Employer coaching and feedback 	<ul style="list-style-type: none"> • Work continuing in liaison with employers to improve data ahead of move to monthly returns. • Recruited 2 new data managers. Development of employer dashboards to track progress. • Work on GDPR to assist data cleanse. • Monthly data submissions to go live for all employers between April and September 2017 (differing staging dates)
3	Complete, as far as possible, the process of reconciling Fund GMP data with HMRC records	2017 – 2018	<ul style="list-style-type: none"> • Delivery of phased review in line with project plan before December 2018 	<ul style="list-style-type: none"> • Phase one, reconciliation, is well underway with queries analysed and to be issued to HMRC before the year-end. • Engaging with service providers to progress phase 1, to include system write-back functionality with a view to progressing to phase 2

Core Objectives	What Will We Do?	When Will We Do It?	How Will We Measure Our Success?	Progress Update
2	Work with our partners to establish LGPS Central and plan for the effective transition of assets into the pool.	2017 - 2022	<ul style="list-style-type: none">• Delivery in line with project plan• All key approvals secured	<ul style="list-style-type: none">• Progress on the implementation of LGPS Central has been very good, with all key milestones to date achieved.

This page is intentionally left blank

WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2017

Fund Account

2016/17 £m		Q1 2017/18 £m
	Contributions & Benefits	
(529.8)	Contributions Receivable	(823.0)
(16.6)	Transfers In	(4.6)
(15.1)	Other Income	(0.2)
(561.5)	Total Contributions and Other Income	(827.8)
531.3	Benefits Payable	130.0
27.7	Payments To and On Account of Leavers	10.2
0.4	Other Payments	0.2
559.4	Total Benefits and Other Expenditure	140.4
71.0	Management Expenses	17.6
	Returns on Investments	
(205.8)	Investment Income	(82.7)
(2,115.1)	Changes in Value of Investments	80.2
(381.7)	Profits and Losses on Disposal of Investments	(183.2)
(2,702.6)	Net Return on Investments	(185.7)
(2,633.7)	Net (Increase)/Decrease in the Fund During the Period	(855.5)
11,660.7	Net Assets of the Fund at the Beginning of the Period	14,294.4
14,294.4	Net Assets of the Fund at the End of the Period	15,149.9

WEST MIDLANDS PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2017

Net Assets Statement

31 March 2017		30 June 2017
£m		£m
	Investment Assets (at Market Value)	
180.1	Fixed Interest Securities	190.7
1,036.2	UK Equities	1,540.0
4,137.2	Overseas Equities	6,409.1
4,921.5	Pooled Investment Vehicles	5,444.0
694.5	Property	778.7
171.1	Foreign Currency Holdings	142.4
459.8	Cash Deposits	623.9
35.7	Outstanding Dividend Entitlement and Recoverable With-Holding Tax	24.7
11,636.1	Investment Assets	15,153.5
(2.6)	Investment Liabilities	(7.0)
11,633.5	Net Investment Assets	15,146.5
0.1	Long-Term Investments	0.1
12.6	Other Long-Term Assets	16.2
52.6	Current Assets	115.0
(38.0)	Current Liabilities	(127.9)
11,660.8	Net Assets of the Fund at the End of the Period	15,149.9

WEST MIDLANDS ITA PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2017

Fund Account

2016/17 £000		Q1 2017/18 £000
	Contributions & Benefits	
(9,504)	Contributions Receivable	(2,849)
(59)	Transfers In	-
(2,654)	Other Income	(690)
(12,217)	Total Contributions and Other Income	(3,539)
28,769	Benefits Payable	7,105
147	Payments To and On Account of Leavers	39
8	Other Payments	1
866	Management Expenses	227
29,790	Total Benefits and Other Expenditure	7,372
	Returns on Investments	
(18,326)	Investment Income	(4,102)
(37,118)	(Profits) and Losses on Disposal of Investments and Changes in Value of Investments	(14,272)
(4,148)	(Increase)/Decrease in Value of Bulk Annuity Insurance Buy-In	-
(59,592)	Net Return on Investments	(18,374)
(42,019)	Net (Increase)/Decrease in the Fund During the Period	(14,541)
460,865	Net Assets of the Fund at the Beginning of the Period	502,884
502,884	Net Assets of the Fund at the End of the Period	517,425

WEST MIDLANDS ITA PENSION FUND ACCOUNTS FOR THE QUARTER ENDING 30 JUNE 2017

Net Assets Statement

31 March 2017 £000		30 June 2017 £000
	Investment Assets (at Market Value)	
247,173	Investment Assets	260,000
255,022	Bulk Annuity Insurance Buy-In	255,022
1,190	Current Assets	2,960
(501)	Current Liabilities	(557)
502,884	Net Assets of the Fund at the End of the Period	517,425

This page is intentionally left blank

Pensions Committee

6 September 2017

Report title	Accounting Policies 2017/18	
Originating service	Pension Services	
Accountable employee(s)	David Kane	Head of Finance
	Tel	01902 554423
	Email	david.kane@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is recommended to endorse:

1. The West Midlands Pension Fund and the West Midlands Integrated Transport Authority Pension Fund accounting policies for the 2017/18 financial year.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's endorsement of the accounting policies to be used in preparing the Funds' accounts for the 2017/18 financial year.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce an annual statement of accounts. In preparing these, funds must have regard to proper practice, and to any guidance which has the effective standing of 'statutory guidance'. That guidance is 'The Code of Practice on Local Authority Accounting in the United Kingdom' ('the Code'), which is prepared by the Chartered Institute of Public Finance and Accountancy (CIPFA), and updated annually.
- 2.2 CIPFA has issued the 2017/18 Code, and there are no significant changes from the 2016/17 Code that are expected to impact on the Funds' accounts.
- 2.3 As a result, the Funds are now in a position to determine and approve their accounting policies for 2017/18. As a matter of good practice, these are being presented for Committee's approval well in advance of the draft accounts themselves (which will be presented in June 2018), and are attached at Appendix 1 (West Midlands Pension Fund) and 2 (West Midlands ITA Pension Fund). The two policies are very similar, but vary slightly to reflect the differing composition of investment assets. It should be noted that, in anticipation of these policies being included in the 2017/18 financial statements, the past tense is generally used.

3.0 Financial implications

- 3.1 The accounting policies are a fundamental part of the Funds' financial governance frameworks. The only change to the accounting policies in 2017/18 is West Midlands Pension Fund's recent use of derivative financial instruments to manage asset allocation and exposure to risks arising from investment activities. A specific accounting policy (j) which addresses this is detailed in Appendix 1.
- 3.2 There are no direct financial implications arising from this report.

4.0 Legal implications

- 4.1 This report contains no direct legal implications for the authority.

5.0 Equalities implications

- 5.1 This report has no equalities implications.

6.0 Environmental implications

- 6.1 This report has no environmental implications.

7.0 Human resources implications

7.1 The report has no human resources implications.

8.0 Corporate landlord implications

8.1 This report has no corporate landlord implications.

9.0 Schedule of Appendices

9.1 Appendix 1 – West Midlands Pension Fund Accounting Policies 2017/18

9.2 Appendix 2 – West Midlands ITA Pension Fund Accounting Policies 2017/18

This page is intentionally left blank

West Midlands Pension Fund - Statement of Accounting Policies 2017/18**a) Fund Account**

In the Fund Account, income and expenditure are accounted for in the year in which they accrue by the creation of payables and receivables at the year end where necessary. However, provision has not been made where the amount payable or receivable in relation to transfers was not agreed at the year end (see note to the accounts).

b) Contribution Income

Contributions receivable have been included in the accounts on the accruals basis at the rates recommended by the Fund's actuary for basic contributions. Additional contributions (including past service deficit contributions and excluding additional voluntary contributions) as notified by employers for the period have also been included. Past service deficit contributions are accounted for in the year in which they are payable under the schedule of contributions set by the scheme actuary.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset, with amounts due after the following year classed as long-term financial assets.

Where employing organisations have not submitted all of the certified returns of contributions payable by the due date for preparation of these accounts, an estimate has been made based on the monthly returns actually received from these bodies.

c) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who had either transferred benefits in or out of the scheme as at 31 March 2018, calculated in accordance with the Local Government Pension Scheme Regulations (see notes to the accounts). Transfers in respect of individuals are accounted for when received or paid, which is normally when the member liability is accepted or discharged. Group transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipts basis, and are reported within transfers in.

d) Investment Income**i) Interest Income**

Interest income is recognised in the Fund Account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

ii) Dividend Income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amounts not received by the end of the reporting period, where known to be due, have been accrued for in the accounts.

iii) Distributions from Pooled Funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the Net Assets Statement as a current financial asset.

iv) Property-Related Income

Property-related income (consisting primarily of rental income from operating leases) is recognised on a straight-line basis over the term of the lease. Any lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease. Contingent rents based on the future amount of a factor that changes other than with the passage of time, such as turnover rents, are only recognised when contractually due.

v) Changes in the Value of Investments

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

e) Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as an expense as it arises.

f) Benefits Payable

Pensions and lump sum benefits payable include all amounts known to be due as at 31 March 2018. Any amounts due but unpaid are disclosed in the Net Assets Statement as current liabilities.

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date, any gains or losses arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note to the accounts). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Freehold and Leasehold Properties

These have been valued at their open market value. Property is valued by the Fund's valuers on an annual basis. The market values included in these accounts are contained in a valuation report by Knight Frank LLP, chartered surveyors, as at 31 March 2018. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties were valued by Savills Plc, agricultural valuers, at the same date.

i) Foreign Currencies

Investments held in foreign currencies have been valued as set out in paragraph g) above and translated at exchange rates ruling at 31 March 2018.

Dividends, interest and purchases and sales of investments have been accounted for at the spot market rates at the date of transaction. End of year spot market exchange rates have been used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at 31 March 2018.

j) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

k) Movement in the net market value of investments

Any gains or losses arising on translation of investments into sterling are accounted for as a change in the market value of investments.

l) Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

m) Financial Liabilities

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the Fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the Fund.

n) Management Expenses

The Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses 2016.

All administrative expenses are accounted for on an accruals basis. The costs of Fund officers are recharged to the Fund, along with all other costs incurred directly on Fund activities, and an apportionment for corporate support services provided by the Council.

All investment management expenses are accounted for on an accruals basis. External investment management and custodian fees are agreed in management or custody agreements governing the administration of the individual mandates. Fees are generally based on the valuation of the underlying investments, either being managed or in safe custody. In addition, performance-related fees are negotiated with a number of managers and the amounts of such fees are provided in a note to the accounts.

Where a management fee notification has not been received by the time of preparing these accounts, an estimate based upon the market value of their mandate is used for inclusion in the Fund Account.

The cost of external investment advice is included in investment management expenses, as is the cost of the Fund's in-house investment management team.

o) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (see note to the accounts).

p) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential and Equitable Life as its AVC providers. AVCs are paid to the provider by employers and are specifically for providing additional benefits for individual contributors. Each contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note to the accounts).

q) Investments - Fair Value - Basis Of Valuation

The basis of the valuation of each class of investment assets is detailed below. There has not been any change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

Asset Type	Basis of valuation
Market quoted investments	Published bid market price ruling on 31 March 2018.
Quoted bonds	Market bid price based on current yields
Unquoted bonds	Average of broker prices
Forward Foreign Exchange derivatives	Market forward exchange rates at the year end
Pooled Investments- overseas unit trusts and property funds	PIV are stated at the bid price quoted or the closing single market prices.
Freehold and leasehold properties	Valued at fair value at the year-end using the investment valuation reports of Knight Frank LLP. One third of the commercial property portfolio is valued fully in March each year, with the remaining two thirds being a 'desktop' valuation. Agricultural properties are valued by Savills PLC at the year end.
Unquoted equity (including private equity, infrastructure and absolute return / diversified growth funds)	Value is based on the latest investor reports and financial statements provided by the fund managers of the underlying funds, adjusted for transactions arising after the date of such reports.

This page is intentionally left blank

West Midlands ITA Pension Fund – Statement of Accounting Policies 2017/18**Fund Account – Revenue Recognition****a) Contribution Income**

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the Fund actuary in the payroll period to which they relate. Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

b) Transfers To and From Other Schemes

Transfer values represent the amounts received and paid during the year for members who elect to transfer benefits to or from the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid.

c) Investment Income**i) Interest income**

Interest income is recognised in the Fund as it accrues using the effective rate of the financial instrument as at the date of acquisition or origination.

ii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

iv) Benefits underwritten

The annuity purchased (see note to the accounts) is treated in the accounts as an investment. Any income arising from this insurance contract to cover benefits underwritten is recognised in the Fund as investment income on an accruals basis.

v) Dividend income

Dividend income is recognised on the date of the cancellation of units at the mid price in the pooled UK investments held with investment fund managers.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

i) Value added tax

The Fund pays VAT collected on income in excess of VAT payable on expenditure to HMRC. The accounts are shown exclusive of VAT.

ii) Income tax

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted.

f) Administration Expenses

All administration expenses are accounted for on an accruals basis. The pension administration recharge from the City of Wolverhampton Council is calculated on a historical cost basis based on the proportion of time spent by the council's in-house pensions administration team on the Fund's activities.

g) Investment Management Expenses

All investment management expenses are accounted for gross on an accruals basis.

Fees of the external investment managers are agreed in the respective mandates governing their appointments. Each investment manager receives a fee for their service based on the market value of the assets they manage on the Fund's behalf. All managers have a specific target return against a benchmark.

The costs of the in-house Fund management team are recharged to the Fund by the City of Wolverhampton Council on the same basis as the administration expenses recharge.

h) Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. The costs include actuarial fees and other professional fees.

Net Assets Statement

i) Financial Assets

The Fund's financial assets include debtors (mainly contributions due from members and employers), cash and cash equivalents, investment assets and bulk annuity insurance buy-in. Such financial assets are recognised initially at cost.

Cash and cash equivalents comprise cash balances and call deposits. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, less any impairment losses.

Debtors are recognised and carried at invoice or contract value less an allowance for any amounts which may not be collectable. Should such an amount become uncollectable, it is written off to the Fund account in the period in which it is recognised.

Investment assets are recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Subsequent to initial recognition investment assets and the insurance buy-in are measured at fair value with any gains or losses arising from changes in the fair value of the asset recognised by the Fund.

The values of investments as shown in the Net Assets Statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see note to the accounts). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

j) Financial Liabilities

Financial liabilities include amounts due for benefits and management expenses. These creditors are recognised and carried at invoice or contract value. Should an amount become non-payable, it is written back to the Fund account in the period in which it is recognised.

k) Foreign Currency Transactions

The Fund has no financial assets denominated in foreign currencies. Equities held overseas are valued in sterling at source.

l) Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards. As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement.

m) Additional Voluntary Contributions

The Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Fund. The Fund has appointed Prudential Assurance Company and Equitable Life as its AVC providers (new AVCs only with Prudential Assurance Company). AVCs collected are paid to the AVC providers by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year. AVCs are not included in the accounts in accordance with section 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (see note to the accounts).

Pensions Committee

6 September 2017

Report title	Risk and Compliance Monitoring 1 April to 30 June 2017	
Originating service	Pension Services	
Accountable employee(s)	Jennifer Picken	Compliance and Risk Officer
	Tel	01902 552092
	Email	jennifer.picken@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is asked to note:

1. The top ten risks for West Midlands Pension Fund. (appendix 1)
2. The compliance monitoring for the quarter and the resolutions put in place to address non-compliance.
3. Markets in Financial Instruments Directive II (MiFID II) classification process.
4. The changes to the Trustee Training Policy to reflect practice throughout the year.

1.0 Purpose

- 1.1 To provide the Pensions Committee with the quarterly update of compliance monitoring for the Fund for the period 1 April 2017 – 30 June 2017.

2.0 Risk register

- 2.1 Each quarter the Fund's compliance team reviews the top ten risks which are drawn from detailed risk registers separately maintained for each department of the Fund. The Risk register is an active document which is regularly monitored to ensure it reflects the most recent activity of the Fund. The reporting period for risks is the most current quarter (July to September) as it is looked upon as both a reactive and proactive document to ensure risks are immediately mitigated.
- 2.2 The Fund's risks are assessed using a 5 x 5 scoring matrix to decide how likely they are to occur and how much of an impact they would have. The scoring is based on 1 being the lowest impact or likelihood with 5 being the highest impact or likelihood of the risk occurring. The scores for both impact and likelihood are multiplied together to create an overall rating (scores 1-4 low rating (4 being an even rating of 2 for impact and 2 for likelihood), 4-12 medium rating (4 being a high impact and low likelihood or vice versa) and 15-25 high rating). The Fund scores each risk for both pre and post-implementation of mitigating controls, this enables the Fund to identify any weaknesses in the controls and provide assurance that its risks are reduced as much as possible.
- 2.3 The top 10 risks for this quarter are highlighted in Appendix 1 together with the actions taken by the Fund to mitigate those risks. One of the top 10 risks has changed during the period but all other remain the same as those reported to Pensions Committee in June 2017. The new risk is in Finance (F6), this risk is in relation to non-payment or receipt of monies due to the Fund and includes employer contributions (previously included in PA1 – employer adherence to the Pensions Administration Strategy).

The reason for the addition is to ensure the Fund manages the risk of any financial impact caused by an employer's failure to pay the contributions when they fall due. The Fund mitigates this risk by monitoring the contributions and income through debtors and liaising with individual employers through the Fund's Employer Team.

3.0 Compliance monitoring programme

- 3.1 The Fund has in place a programme, which aims to ensure its internal and external operations meet acceptable standards and best practice.
- 3.2 The programme is directly linked to the risk register; testing the effectiveness of the controls in place.
- 3.3 The results of the tests carried out for the April to June 2017 quarter are summarised below on an exception reporting basis. For compliance monitoring purposes the period

reviewed is commenced at the end of each quarter, therefore the latest information available is for the April to June 2017 quarter which was tested during July.

3.4 **Exception reporting**

Out of all of the tests carried out, the following was found:-

3.4.1 Governance

A review was conducted on the Fund's officer access to our online banking administration systems. The review concluded that 1 officer who had ceased employment with the Fund still had an active login for both online banking systems. This access has now been removed and we can confirm that no access to the Fund's accounts was granted during the period.

3.4.2 Investments

For trades executed during the period April-June 2017 on the USA equity portfolios, PDF copies of the dealing books for the period had not been produced at the time of conducting the monitoring check (which was completed early this quarter). The team has now produced copies and they are on file and have been encouraged to complete these as when actioned to ensure all are up to date throughout the quarter.

The Fund is continuing to monitor late trades executed by the custodian, and is reporting 15 late trades this quarter. Having noted the increase, Compliance continue to engage with the custodian on a monthly basis and can report no financial detriment has resulted from the late trades.

4.0 **The Pensions Regulator (TPR) Code of Practice compliance monitoring**

4.1 The code of practice sets out the legal requirements for public service pension schemes and standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

4.2 In response to this, the Fund has compiled a compliance monitoring programme to evaluate its compliance in line with the Pensions Regulator Code of Practice. This is the second quarter the Fund has completed testing under this program and are pleased to confirm that no issues have been identified.

4.3 The general compliance monitoring programme tests cover fund administration (i.e. pensions administration, internal disputes, publishing information etc.), finance (i.e. payment of contributions etc.), governance arrangements (i.e. Pensions Committee and Pensions Board arrangements, conflicts, breaches and risk) and investments (i.e. maintaining investment returns to cover liabilities etc.). The TPR monitoring provides assurance on the governance and administration of the scheme and ties into the annual survey of funds carried out by TPR. As this is an assurance tool rather than a monitoring tool it is proposed to be completed once a year rather than on a quarterly basis. Committee can be assured that the Fund's compliance monitoring program manages pension administration compliance on a quarterly basis

5.0 General Data Protection Regulation

- 5.1 The European Union have issued a directive to replace the existing Data Protection Act creating the new General Data Protection Regulations (GDPR). This directive is required to be implemented with effect from 25 May 2018. Updates have been provided to Committee on a quarterly basis on the work of the Fund in this area and can confirm that the Fund is on course to complete the project in line with the workplan.
- 5.2 Most recently, the Fund has begun work on producing the Fair Processing Notice to be published on the website confirming to Members how their information is used by the Fund together with drafting Privacy Impact Assessments which will risk assess the Fund's use and management of data under different processes.

6.0 MiFID II classification update

- 6.1 In July 2017 the Financial Conduct Authority (FCA) released a secondary policy statement on the implementation and requirements of the Markets in Financial Instruments Directive II (MiFID II) which has identified the criteria to a lower threshold for the size of portfolio that a local authority has to have, which makes it easier for LGPS pension funds to opt-up to professional client status.
- 6.2 The Fund currently considers itself as a Professional Client under MiFID I rules, however under MiFID II the criteria for LGPS pension funds has changed and the Fund will automatically be considered as a Retail Client but are proposing to opt up to Professional status as noted in another report.
- 6.3 Following engagement between the FCA and LGPS funds, the FCA have amended the opt up process making it easier for Funds to opt up to Professional Client status. The opt up process allows the Fund to continue on with its existing investment activities with no impact. If the Fund were to be classified as a Retail Client without the opt up process, it would be restricted on the types of assets it can invest and transact within due to the nature of the classification.

Retail Clients are deemed to be not as knowledgeable within the investment markets as Professional Clients and therefore are offered more protection against engaging in certain types of investment activity but are also restricted from certain assets or markets.

7.0 Trustee Training Policy update

- 7.1 The Fund has in place a Trustee Training policy which outlines the expectation of Trustees to undertake training and development in line with the CIPFA requirements. The policy outlines the support provided by the Fund in helping Trustees achieve their required training hours of 22 hours per year which includes the provision of structured in-house training, self-development (reading), together with attendance at external conferences and seminars.
- 7.2 Throughout the year in consultation with the Chair, the Fund has amended the policy to provide an opportunity for all Trustees to attend off-site training and/or an external conference or event, typically once a year, subject to cost and in agreement with the Chair.
- 7.3 The Trustee Training policy has been updated to reflect these changes as agreed with the Chair and a copy is attached at Appendix 2

8.0 Financial implications

- 8.1 The budget for Trustee training is incorporated within the Fund's administration budget.
- 8.2 Failure by the Fund to adhere to regulatory changes could result in fines being imposed on the Fund by either the Pensions Regulator or the Information Commissioner.

9.0 Legal implications

- 9.1 The need for effective risk management is reflected throughout guidance and regulation in the LGPS, notably in Regulation 7(2) of the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016*.
- 9.2 The Pensions Committee, as the body charged with governance of the administering authority's pensions operations, takes the responsibility for ensuring that there is effective risk management over those operations.
- 9.3 The requirements for Trustee training are set out in the Regulator's code of practice and CIPFA guidance. Trustees and Board members have a legal duty to ensure they have the required knowledge and skill to undertake their roles. Failure to adhere to these duties may result in challenge from external parties. There is also a possibility of intervention from the Pensions Regulator.

10.0 Equalities implications

- 10.1 The Trustee Training Policy has been drafted in consideration of the Equalities Act and associated guidance.

11.0 Environmental implications

11.1 This report contains no direct environmental implications.

12.0 Human resources implications

12.1 The report contains no direct human resource implications.

13.0 Corporate Landlord

13.1 There are no corporate landlord implications.

14.0 Schedule of background papers

14.1 General Data Protection Regulations

<https://ico.org.uk/for-organisations/data-protection-reform/overview-of-the-gdpr/>

14.2 Pension Regulator's Toolkit

<https://trusteetoolkit.thepensionsregulator.gov.uk/>

14.2 Pension Regulator's Code of Practice

<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx>

14.3 Financial Conduct Authority Markets in Financial Instruments Directive II Implementation – Policy Statement II

<https://www.fca.org.uk/publication/policy/ps17-14.pdf>

15.0 Schedule of Appendices

15.1 Appendix 1 – Risk Register Summary

Appendix 2 – Trustee Training Policy

Top 10	Risk Ref	Risk Controls	Assessment		Risk Movement	Risk Owner	June-September 2017 changes and actions taken to manage risk
			Pre-control	Post-control			
1	PA 1 - PAS not complied with	<ol style="list-style-type: none"> 1. Communication with employers at the Annual General Meeting (AGM) to ensure they understand the PAS and their requirements under it. 2. Employers adherence to the PAS is monitored. 3. PAS regularly reviewed and approved by committee. (Draft went to September 2016 Committee and final to go in March 2017). 	20	16	➡	Director of Pensions	No amendments - the PAS was effective from 1 April 2017. 1 control re: contributions monitoring moved to Finance (F6) as a new individual risk relating to non-payment/receipt of monies
2	PA 2 - Orphaned liabilities and covenants	<ol style="list-style-type: none"> 1. All new employer bodies need to have a suitable guarantee/covenant in place prior to being admitted into the scheme. 2. Monitoring is carried out on existing employers and the covenant strength is assessed and each employer is risk rated. <p>The in-house monitoring policy has been fully reviewed and refreshed by Deloitte to enhance our internal controls.</p> <ol style="list-style-type: none"> 3. Higher risk employers are monitored closely by the Employer Team. 4. Where there are concerns, the Fund opens dialogue with the relevant employers and where possible, arranges face-to-face meetings to explore their situation in more detail. Once the Fund has a more detailed understanding of the situation, it will discuss the possibility of the provision of additional security by those organisations to further strengthen their covenant. 	16	12	➡	Head of Client & Funding Management	No amendments - all employers go through an initial covenant assessment and all are monitored throughout the year.
3	PA 3 - Inaccurate data for calculations	<ol style="list-style-type: none"> 1. Robust process in place to ensure accuracy of calculations, including officer checking. 2. Induction training to ensure officers are suitably skilled, as well as regular staff training to raise awareness of the importance of data quality. 3. Data quality reviews of common and conditional data in place and reported to Committee half yearly in line with other TPR guidance. (Run in May and November). 4. The PAS sets out expectations and requirements of employers in relation to data quality. 5. Communication with employers at MYR to stress the importance of complete and accurate data. 6. Data validation checks undertaken:- (a) by actuary at valuation (b) through National Fraud Initiative (c) through Millennium Halo 7. Web portal in place for members to input their details directly removing employee human error. 8. Bulk data import in place for employers to load their joiners data straight to the Fund's system - reviewed at Employer Peer Group. 9. Plan to move bulk data import in progress for employers to load their member changes data straight to the Fund's system in line with proposal for monthly returns instead of annual returns. 10. Individual member changes and individual early leavers data can be loaded straight to the Fund's system by employers. 	15	12	➡	Director of Pensions	No amendments - this area will continue to be closely monitored due to the changes to monthly submissions from annual. All employers should be transferred to monthly by the end of September 2017.
4	PA 5 - GMP reconciliation	<ol style="list-style-type: none"> 1. A project is underway to achieve this by December 2018. Officers now attending National Framework networking group to discuss future approach to GMP. Initial analysis has been completed by ITM. - First stage completed. The Fund has engaged Equiniti to do more analysis to identify the gaps. WMPF received report on Deferred and Pensioner status and has been reviewed. Progress of the project is reported monthly to the Senior Management Team. Report to Pensions Committee quarterly as part of the Pensions Administration report. 	20	16	➡	Director of Pensions	WMPF are currently progressing through a review of the active data files.
5	PA 7 - Future liabilities increase	<ol style="list-style-type: none"> 1. The Fund undergoes a triennial valuation, in conjunction with the Fund's actuary. Although liabilities will increase, controls are put in place to ensure assets keep pace with liabilities. The closer the match points 2-4. Life expectancy: Although there is no life longevity hedging, a prudent allowance is built into the actuarial assumption, for life expectancy to improve. Inflation and wage and salary inflation: The Fund invests in index-linked bonds and hold income generating assets including those which provide an index linked income stream. Interest rates: Investment returns are monitored quarterly with liabilities in mind. 	16	12	➡	Director of Pensions	The 2016 actuarial valuation has now been successfully completed and interest rates are continually monitored. The Fund is building an in-house tool to monitor closely the funding levels of each individual employer. This is due September/October 2017.
6	17 - Currency exposure (SIAB)	<ol style="list-style-type: none"> 1. Adviser and internal staff to review currency exposure of benchmark v. the funding objectives, to present to Pensions Committee recommending an action to mitigate. 	15	15	➡	Chief Investment Officer	No amendments – all controls implemented and still current.
7	G 1 - Data security and data quality	<ol style="list-style-type: none"> 1. Continuous staff training on data protection 2. In-depth training for managers on information governance on an annual basis (or ad hoc when required changes or additions). 3. There is an information governance project has been completed and now a workplan/project has been created for the implementation of the GDPR. 4. Data encryption and password protection 5. Use of file transfer protocol 6. All information security breaches are reported and any systemic issues are identified and corrected. 7. System back-up to protect against data loss. 8. The Fund is liaising on a national level to ensure consistent approach to GDPR changes. 	20	12	➡	Head of Governance / Director of Pensions	No amendments – all controls implemented and still current.
8	G 2 - Lack of Trustee independence	<ol style="list-style-type: none"> 1. Full trustee induction training is provided to members on joining the Pensions Committee and Pensions Board to inform them of their duties and responsibilities. 2. There are sufficient numbers on the Committee to ensure that the Fund's interests are put before individual authorities. 3. Members are bound by codes of conduct. 4. Conflicts of interest policy in place for Pensions Committee and Pensions Board 5. All districts are represented and have voting powers. 6. Clear delegation of authority within the Council and the Fund's separate constitutions, setting out the roles and responsibilities of the Fund. 7. Conflicts of interest policy in place for Pensions Committee and Pensions Board. 8. The Fund has a formal recruitment process in place to ensure the Board is fully recruited. The Board can review the process at any time to ensure it is adequate. 	16	12	➡	Head of Governance	The Chair of the Pensions Board has now been appointed and 1 member of the Board has resigned, therefore the Fund has begun the recruitment process for a replacement.
9	G 7 - Change in Government policy/LGPS reforms	<ol style="list-style-type: none"> 1. The Fund keeps abreast of developments, participating in consultation and calls for evidence, and collaborating with other funds. 	20	16	➡	Director of Pensions	No amendments – all controls implemented and still current.
10	F 6 - Non-payment of receipt of monies due to the Fund	<ol style="list-style-type: none"> 1. Monthly monitoring of ongoing (FSR) and deficit (PSD) contribution payments by Finance. Finance are working in conjunction with the Employer and Data Teams through monthly submissions with more analysis, reviews and feedback. 	15	10	➡	Director of Pensions	Noting the financial element of risk PA1, the significant risk and statutory obligation on employers to make payments to the Fund.

This page is intentionally left blank

1. BACKGROUND

- 1.1 The West Midlands Pension Fund aims to achieve good standards of governance in line with or exceeding best practice built around four key elements:
- Pensions Committee
 - Local Pensions Board
 - Trade union representation and provision of information
 - Advisors and officers (to include the Investment Advisory Panel and Investment Strategy Panel – Funding and Investment Strategy, Actuary)

Details of how these elements function and operate to ensure they are effective are set out in the Governance Compliance Statement.

- 1.2 A major factor in the governance arrangements of the Fund is to ensure that Trustee and Pension Board Members and officers have the relevant skills and knowledge by applying the CIPFA Knowledge and Skills Framework, which will achieve this objective. The CIPFA knowledge framework was created to help ensure that training is delivered effectively and efficiently by identifying and focusing on key knowledge areas.

- 1.3 Six areas of knowledge and skills have been identified as core technical requirements for those Members associated with LGPS pension funds:
- pensions legislation and governance context
 - pension accounting and auditing standards
 - financial services procurement and relationship management
 - investment performance and risk management
 - financial markets and products knowledge
 - actuarial methods, standards and practices

It is not the intention that Trustees and Pension Board should individually become technical experts, but that collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

- 1.4 The Fund on an annual basis produces a schedule for training for Trustees and Pension Board which seeks to develop skills and knowledge throughout the course of the democratic year. Each session the Fund will seek feedback and will engage with Trustees on the effectiveness of the training delivered to ensure Trustees and Pension Board needs are met in relation to their training and development.

2. POLICY

- 2.1 Upon joining the Pensions Committee and the Local Pensions Board, new Members will be required to attend an in-house induction training session facilitated by Pension Fund Officers. This will provide an understanding of roles and responsibilities and an overview of the Fund's strategies in order to allow informed participation in decision making or scrutiny of complex pension issues.

2.2 Trustee and Pension Board Members are required to undergo a minimum of 22 hours training each year as part of their commitment to good scheme governance, which will comprise 3 days structured training and self-reading. In addition, the Fund provides for at least one attendance at an external conference or event per year per Committee member.

The Fund's aim is to assist Trustees and Pension Board Members in achieving their responsibilities and typically provide the following training opportunities

TRUSTEES (minimum 22 hours)		
	First Year in Role <ul style="list-style-type: none"> • 1 day induction session • The Pensions Regulator Toolkit 	6 hours 9 hours
	<ul style="list-style-type: none"> • 3 days structured training • 1 conference/seminar per trustee • 1 hour training each committee • 20 hours per annum self-reading 	18 hours 15 hours 4 hours 20 hours Total 72 hours
PENSION BOARD (minimum 22 hours)		
	First Year in Role <ul style="list-style-type: none"> • 1 day induction session • The Pensions Regulator Toolkit 	6 hours 9 hours
	<ul style="list-style-type: none"> • 2 days structured training • 20 hours per annum self-reading 	12 hours 20 hours Total 47 hours

A personal training record will be maintained by Fund officers for each Member to enable annual reporting.

Participation in training will enable Members to keep up to date with pension fund investment, operational and administrative requirements of the Fund.

- 2.3 Periodically, the Fund will invite external speakers to deliver training sessions to Trustees and Pension Board on a new or a particularly complex subject. External advisors may also present reports to meetings and deliver a training session as part of that presentation.
- 2.4 The Fund welcomes feedback from all Trustees and Pension Board members to assist in shaping its training program each year. A training needs analysis will be circulated by the Trustee Management Officer at the start of the democratic year, with the feedback helping to shape the training program for the year.

This page is intentionally left blank

Pensions Committee

6 September 2017

Report Title	Pensions Administration Report from 1 April to 30 June 2017	
Originating service	Pension Services	
Accountable employee(s)	Mark Smith Tel Email	Benefit Operations and Payroll Manager 01902 551508 Mark.Smith3@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Director of Pensions 01902 551715 Rachel.Brothwood@wolverhampton.gov.uk

Recommendation for action or decision:

The Committee is recommended to:

1. Approve the write-offs detailed in section 8.0 of this report.

Recommendations for noting:

The Committee is asked to note:

1. The applications approved by the Director of Pensions and the Chair or Vice Chair of Pensions Committee for admission to the West Midlands Pension Fund.
2. The pensions administration activity for both the West Midlands Pension Fund (the Main Fund) and the West Midlands Integrated Transport Authority Fund (the WMITA Fund).

1. Purpose

- 1.1 To inform Committee of the work undertaken by the pensions administration service during the period 1 April to 30 June 2017 for both the Main Fund and the WMITA Fund.

2. Background

- 2.1 The Fund provides a pension administration service to its stakeholders, which covers employer, customer and member services, data management, benefit operations, payroll and systems/technical support. A report is provided to Committee on a quarterly basis to cover the activity and performance of these functions during that period.

3. Scheme Activity

3.1 Membership movement – Main Fund

- 3.1.1 The total number of scheme members in the Fund at 30 June 2017 stands at 305,078, with an overall increase since March 2017 of 2,985. The long-term trend over a 12 year period in membership is set out in (Appendix A) which illustrates a move towards a more mature profile whereby, in general, active memberships are falling and pensioners and deferred membership increasing. Over the course of the last four years, however, the number of active membership records has increased. We expect the active membership numbers to fall as many employers continue to reduce head count but note the combination of members with multiple posts, auto enrolment and a lag in receipt of joiner/leaver information mean this is not yet fully reflected in Fund data.

3.2 Membership movement – WMITA Fund

- 3.2.1 The number of scheme members in the WMITA Fund in all three categories stood at 5,048 on 30 June 2017, 8% are active members, 15% are deferred and the largest group are pensioner members at 77% of the total membership. The Fund is closed to new joiners but active members continue to accrue benefits. Detailed below is the current information showing movements between 31 March 2017 and 30 June 2017.

	Membership as at 31st March 2017			Movements during the period			Membership as at 30th June 2017		
	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total	National Express	Preston Bus Ltd	Total
Active Members	402	0	402	-13	0	-13	389	0	389
Deferred Members	764	15	779	-9	0	-9	755	15	770
Pensioner Members	3,772	117	3,889	-1	1	0	3,771	118	3,889
Total Members	4,938	132	5,070	-23	1	-22	4,915	133	5,048

3.3 Workflow statistics – Main Fund

- 3.3.1 The process analysis statistics (Appendix B) show details of overall workflow within the Pensions Administration Service during the period 1 April to 30 June 2017.
- 3.3.2 During the period covered by this report 35,576 administrative processes were commenced and 31,473 completed. On 30 June 2017 there were 34,052 items of work outstanding. Of this, 4,270 items were in pending as a result of information awaited from a third party e.g. scheme members, employers or transferring authorities. Within pensions administration, 29,782 processes are now either proceeding to the next stage of the process or through to final completion.
- 3.3.3 The number of active processes remains high. From 1 April to 30 June 2017, the Fund has seen an increase in the volumes received. The total number of processes outstanding remains high as part of the increased focus on data quality. A number of additional processes have been started to action work relating to historic outstanding data employers are providing and to address known issues in relation to current routine submissions. We also continue to see the impact of the 2014 scheme changes where members were given the choice to aggregate their benefits rather than this happening automatically. This has resulted in higher volumes of processes remaining uncompleted until member elections are received or 12 months lapses.
- 3.3.4 The Fund is implementing a number of work programmes to target key processes where high volumes exist. Key areas of focus this quarter include the transfer of benefits to other schemes. Transfer to non Local Government pension schemes are back within the appropriate KPI with high volumes cleared, and the team is now targetting transfers to other Local Government funds.
- 3.3.5 A detailed analysis of the key processes across all operational functions e.g. calculating benefits for retirements, pensioner member data changes as well as the maintenance of updating membership details is shown in (Appendix C).

3.4 Workflow statistics – WMITA Fund

- 3.4.1 During the period covered by this report 568 administrative processes were commenced and 588 completed. On 30 June 2017 there were 119 items of work outstanding.

3.5 Key Performance Indicators (KPIs)

- 3.5.1 The Fund uses a number of KPIs to measure performance when processing items such as Transfers In and Out, Retirements and Deferred Retirements further details are show in the Service Plan Monitoring Report.
- 3.5.2 Transfer KPIs have been impacted by the Government change in calculation basis and factors in 2016. Compounded by a further change in the 'transfer club' factors in April 2017. The cases are being processed but this continues to impact KPIs.

3.5.3 Retirement notification of estimated benefits have been impacted by the late notification of Statutory Revaluation Orders. Additional information is provided in Appendix D detailing the information by month.

3.6 Employer membership data

3.6.1 The Main Fund continues to see an increase in employer membership, due mainly to the establishment of academies and outsourced local government contracts, with 13 new organisations being admitted during the period 1 January to 31 March 2017. The current number of employers as at 30 June 2017 is 610. The level of on-going work being processed at the end of the period is as follows:-

- 61 admission agreements
- 27 academies
- 55 employer terminations

For more information see paragraph 6.

3.7 Customer services

3.7.1 An overview of our front-line customer contact activity is shown in Appendix E. This outlines the variety and volume of support provided by the Fund to address members' pension queries. An indication of the statistics for the previous year is included within the charts as a comparative measure.

3.7.2 Unfortunately during April and May, the Fund fell slightly short of the overall KPI of 85%. The primary reasons for this were as follows:

- An increase in call volume
- An increase in email volume
- An increase in web portal 'ask a question' queries
- Unforeseen resourcing issues (e.g. sickness)

The increase in customer contact can be attributed to the effect of cost-saving/redundancy programmes implemented by individual employers.

3.7.3 The majority of pension fund enquiries received (97.78%) are responded to within 10 days by the Customer Services team. Those emails which aren't resolved immediately start a new process on the UPM administrative system or are added to an existing operational/payroll process as they require more detailed investigation and completion by the Operational or Payroll teams. These include requests for transfer values to be calculated, retirement forms etc.

3.7.4 We are continuing to see a trend of increasing customer enquiries including a preference for electronic communications among members.

4. IDRP (Internal Dispute Resolution Procedure) casework

- 4.1 So far in the 2017/2018 financial year there has been two cases referred to Stage one of the procedure against the Fund. Both cases are still on-going.
- 4.2 Five cases have been received for stage 2 investigation. Two cases have been dismissed. Three cases are still on-going.
- 4.3 The cases dismissed at stage 2 related to the following pension issue:
- Exercise of employer discretion on the early payment of deferred benefits from age 55.

5. Death grant

- 5.1 In this financial year no new cases have been referred to the Legal Department for consideration. All cases from 2016/2017 have successfully been resolved.

6. Application for admission body status

- 6.1 Organisations must satisfy one or more of the admission criteria before they can be admitted to the Main Fund following Pensions Committee approving the applications. Sometimes a decision is required which is not compatible with the cycle of Pensions Committee meetings. In these circumstances, Pensions Committee has delegated responsibility for approving such applications to the Director of Pensions in consultation with the Chair or Vice Chair of Pensions Committee.
- 6.2 The table below lists the applications received for admission to the West Midlands Pension Fund which have been approved by the Director of Pensions and either the Chair or the Vice Chair of Pensions Committee.

Employer name	Guarantee Status (Agreement)	No of employees (Scheme members) Agreement type	Status
Murray Hall Community Trust (Rowley and Tipton)	Sandwell MBC	8(8) Closed	Approved
Churchill Contract Services Ltd (Finham Park MAT)	Finham Park MAT	16(16) Closed	Approved
KWB Corporate Cleaning Ltd (Boldmere School)	Birmingham City Council	6(5) Closed	Approved
Caterlink Ltd (John Paul II MAT)	John Paul II MAT	8(8) Closed	Approved
Compass Contract Cleaning Services (UK) Ltd (Arthur Terry)	Arthur Terry Learning Partnership Ltd	15(15) Closed	Approved
MCS Cleaning & Maintenance Ltd (ARK Academies)	ARK Academies	10(10) Closed	Approved
Caterlink Ltd (The Futures Trust)	The Futures Trust	6(6) Closed	Approved

This report is PUBLIC
[NOT PROTECTIVELY MARKED]

Aspens-Services Ltd (Fairfax MAT)	Fairfax MAT	N/K Closed	Approved
Places For People (Sparkhill)	Birmingham City Council	2(2) Closed	Approved
Greenwich Leisure Ltd	Dudley MBC	121(121) Closed	Approved
Mellors Catering Services (Grestone Academy)	Grestone Academy	8(8) Closed	Approved
ABM Catering Ltd (Thornton Primary School)	Birmingham City Council	5(5) Closed	Approved
Bentley Federation Childcare Services	Walsall MBC	12(12) Closed	Approved
Churchill Contract Services Ltd (Queensbridge School)	Birmingham City Council	1(1) Closed	Approved
Churchill Contract Services Ltd (Stoke Park School)	Coventry City Council	12(12) Closed	Approved
Churchill Contract Services Ltd (Wodensfield Primary School)	City of Wolverhampton Council	6(4) Closed	Approved
KCLS Ltd (Stanton Bridge Primary School)	Stanton Bridge MAT	5(5) Closed	Approved
KCLS Ltd (St Annes Primary School)	Coventry City Council	2(2) Closed	Approved
Solo Service Group (Aldridge School)	Aldridge School an Academy	1(1) Closed	Approved
Aspens-Services Ltd (Bantock Primary School)	City of Wolverhampton Council	4(4) Closed	Approved
Aspens-Services Ltd (Lanesfield Primary School)	City of Wolverhampton Council	3(3) Closed	Approved
Aspens-Services Ltd (Meridale Primary School)	City of Wolverhampton Council	2(2) Closed	Approved
Aspens-Services Ltd (Foxyards Primary School)	Dudley MBC	4(4) Closed	Approved
Action for Children (Smethwick and Oldbury)	Sandwell MBC	12(12) Closed	Approved
Action for Children (West Bromwich)	Sandwell MBC	10(10) Closed	Approved

6.2.1 There has been an increase in volume up to 30 June 2017, due largely to academy schools outsourcing services and this is expected to be seasonal in nature but the Employer Services team are monitoring this trend.

7. Pensions in payment

7.1 Pensions in payment – Main Fund

The gross annual value of pensions in payment for the Main Fund to June 2017 was £464m, £17m of which (£8.3m for pensions increase and £8.7m for added year's compensation) was recovered from employing authorities and other bodies as the expenditure was incurred.

7.2 Monthly payroll details for the Main Fund were:

Month	Number	Value £
April 2017	74,722	31,818,103
May 2017	74,681	32,461,501
June 2017	82,074	33,154,468

The June figure includes pensioners paid on a quarterly basis.

7.3 Pensions in payment – WMITA Fund

The gross annual value of pensions in payment for the WMITA Fund to June 2017 was £23m, of which £4,488 for added year's compensation was recovered from employing authorities and other bodies as the expenditure was incurred.

7.4 Monthly payroll details for the WMITA Fund were:

Month	Number	Value £
April 2017	3,824	1,856,668
May 2017	3,813	1,859,276
June 2017	3,873	1,883,365

The June figure includes pensioners paid on a quarterly basis.

8. Write-off policy decisions

A write-off relates to pensions overpaid to members, after following the debt recovery policy, these cases become uneconomical to pursue or the estate has insufficient funds to recover. In general, an overpayment is generated by late notification of death of members.

A write-on relates to monies due to the members estate in order to make pension payments up to date of death. After correspondences, the legal representative is untraceable or does not wish to claim the funds.

8.1 Write-off analysis

The following write-offs of pension payments are reported in line with the Fund's policy:

Individual Value	Main Fund		WMITA Fund	
	Number	Total	Number	Total
Less than £100	2	107	0	0
£100 - £500	15	3,561	0	0
Over £500	4	4,448	0	0
TOTAL	21	8,116	0	0

8.2 Write-on analysis

Individual Value	Main Fund		WMITA Fund	
	Number	Total	Number	Total
Less than £100	3	190	0	0
£100 - £500	0	0	0	0
Over £500	0	0	0	0
TOTAL	3	190	0	0

9. Member and Employer Engagement

9.1 Web Portal

9.1.1 Work is continuing to increase awareness of the web portal facility for members and employers. There are currently over 51,000 members registered to use the web-portal facility with just over 33,000 of those having been authenticated as at 30 June 2017. A breakdown of those registered and authenticated between the Main Fund and WMITA is provided below:

Registered and authenticated

WMITA - 658

WMPF – 32,451

9.1.2 Existing registered members will transition across to the new member web portal. The Fund and employers are promoting use of the new member web portal and we would expect this to increase numbers registered over the coming quarters. New monitoring of web portal access will be in place from September 2017.

9.1.3 **New Member Web Portal**

Over this period member services, in conjunction with customer services, are planning tailored communication packages for several of our employers to assist in the launch of the new My Pensions Portal on the 21 August 2017. The objective is to increase the amount of members managing their pension accounts online. The initial step towards achieving this is via discussions with employers (primarily district councils at this stage) with regards to the different avenues that they communicate with their employees which the Fund can utilise to advertise My Pensions Portal to ensure maximum exposure. The Fund is currently in the process of designing material to assist the marketing campaign. The Fund will report back to Committee at future meetings, to include a plan of engagement and promotion of the new My Pensions Portal, and also the levels of members registered and activated on this facility.

9.2 **Member Services**

9.2.1 In total, the Member Services Team has assisted 1257 members with pension related information over this period.

9.2.2 **Presentations**

Fund officers have continued to deliver presentations upon request from employers. The team provide support on a variety of pension topics that are requested by an employer for their employees.

The emphasis during this reporting period has been:

- Planning, developing and enhancing our service.
- Supporting those members who are at risk of redundancy or maybe facing reductions in pay.
- Providing support and guidance to members at local authority depot sites and further and higher educational establishments using the Pension Roadshow Bus.
- Planning and delivering joint Fund and Prudential events.
- Providing an overview of the scheme and communicating the benefits the scheme offers.

A total of 24 Fund presentations were delivered to 353 attendees, these presentations were held at a variety different employers, including the district councils, universities, schools/academies and other admitted bodies.

The feedback from these presentations was 48% of the members rated them as excellent, 36.5% as very good and 14.5% as good and 1% as satisfactory.

The Fund works in partnership with Prudential to deliver a joint presentation covering how the Scheme works and tax efficient methods of saving towards the future. During this period 13 of these presentations were delivered across 7 employers, 114 members attended.

9.2.3 Roadshows

During this reporting period the Fund started to deliver Roadshow events at our local authority sites. The roadshow Statistics for this reporting period are:

Date	Venue	Attendees
4 April 2017	Redfern Road Depot	41
5 April 2017	Perry Barr Depot	63
6 April 2017	Montague Street Depot	65
7 April 2017	Leys Lane Depot	78
23 May 2017	BMET – Stourbridge Campus	25
24 May 2017	BMET- Matthew Boulton Campus	18
26 May 2017	The Sixth Form College, Solihull	30
6 June 2017	Sandwell College	31
7 June 2017	Halesowen College	45
8 June 2017	City College Coventry	30
12 June 2017	City of Wolverhampton College	31
13 June 2017	Bournville College	52
14 June 2017	Dudley College	37
15 June 2017	Walsall College	41
	Total Attendees	587

9.2.4 Lower income presentation

To ensure the Fund covers a diverse cross section of our members and employers over the West Midlands, we are in the initial stages of designing a presentation for 'lower earners', in particular support staff at schools and academies. Based on previous feedback, some members can find some of the existing presentations too detailed and lengthy. A short LGPS & You presentation will be designed, which covers only the key principles of the LGPS, and the length of the presentation has been reduced to take into account the working patterns of schools and academies.

9.2.5 Pensioner engagement

The Fund has identified that more communication is required with pensioners and to provide more support to assist them with the transition from leaving employment to becoming a pensioner. As a result, the Fund is setting up a Pensioner Engagement

Forum which will take place on the 18 October in order to seek feedback on the following areas:-

- Pensioner section on the Funds website
- How pensioners use web portal
- The look and feel of retirement – and how we can help
- Piloting a retirement planning workshop
- Pensioner newsletter

9.2.6 Additional Support

Further support has also been provided to members either through drop in sessions or scheduled one to one support sessions. In total, additional support was delivered to 203 members on an individual basis.

10.0 Mid-Year Review

10.1 Mid-year review was held at the Molineux Stadium on 5 July 2017. Survey results indicate the mid-year review was rated as either good or excellent by 92.85% of respondents and 7.15% rated mid-year review as satisfactory.

11. GMP Reconciliation

- 11.1 Contracting out of the state second pension (formerly SERPS) on a Guaranteed Minimum Pension (GMP) basis operated between 1978 and 1997. However, in April 2016 the Government replaced the earnings-related state pension arrangements with a single-tier State Pension.
- 11.2 The introduction of the single-tier state pension from April 2016 has brought about the end of contracting out for defined benefit (DB) schemes and has triggered a requirement for schemes to reconcile their contracted out membership and GMP records with those held by HM Revenue & Customs (HMRC).
- 11.3 GMP reconciliation allows administrators to check their contracted out records against those held by HMRC, resolving any differences between the two sets of records. HMRC have set up a Scheme Reconciliation Service (SRS) to assist pension scheme administrators to reconcile their records for all non-active members (which includes; Early leaver, Pensioner, Widow, Widower/Civil Partner, Incomplete record) against HMRC records.
- 11.4 This work for the Fund is being managed in 3 key stages:
- Stage 1: Comparison of the HMRC data with the Fund data and analysis of mismatches on members, contracted out dates and GMP amounts.
 - Stage 2: Resolving disputed membership and agreeing GMP amounts.
 - Stage 3: Updating the pension administration system and performing rectification calculations where necessary.

- 11.5 Stage 1 has been completed for deferred and pensioner members, stage 1 for active members is being progressed Stage 1 involves the reconciliation of the data it holds against the record of HMRC and has engaged with a third party reconciliation provider, who are completing a detailed analysis of the two sets of data. To date 46,000 discrepancies for non active members have been raised with HMRC, current turnaround times for HMRC responses are 4 to 8 months.
- 11.6 The Fund has met with the system provider and their reconciliation partner on 19 July 2017. The Fund is considering three proposals on how to progress with the reconciliation. An updated data refresh has been requested from HMRC on 31 July 2017.

12. Supreme Court Case – Walker v Innospec

- 12.1 On 12 July 2017 the Supreme Court made a judgement which has potential implications for schemes who offer differing survivors' pension benefits depending on whether their relationship is a civil partnership, same sex marriage or opposite sex marriage.

The Equality Act 2010 contains an exemption which permitted pension schemes to discriminate in the survivor benefits it offered. The Supreme Court ruled that this was incompatible with EU law.

The possible impacts of this ruling on public service pension schemes, including the LGPS is being considered by the Government. A potential impact to note is in relation to pre 2008 scheme rules, this would represent a retrospective change.

13. General Data Protection Regulation (GDPR)

- 13.1 GDPR is regulation from the European Union which was approved by the EU Parliament on 14 April 2016 and is effective from 25 May 2018. GDPR tightens the requirements which impact how pension schemes obtain member consent for the data they hold and process. The Fund continues to make preparations for the new regulations.

14. Financial implications

- 14.1 The report contains financial information which should be noted.
- 14.2 Employees of organisations who become members of the Local Government Pension Scheme will contribute the percentage of their pensionable pay as specified in the Regulations. The Fund's actuary will initially, and at each triennial valuation, set an appropriate employer's contribution rate based on the pension assets and liabilities of the individual employer.

15. Legal implications

- 15.1 The Fund on behalf of the Council will enter into a legally binding contract with organisations applying to join the Local Government Pension Scheme under an admission agreement.

16. Equalities implications

16.1 This report has implications for the Council's equal opportunities policies, since it deals with the pension rights of employees.

17. Environmental implications

17.1 The report contains no direct environmental implications.

18. Human resources implications

18.1 This report has implications for the Council's human resources policies since it deals with the pension rights of employees.

19. Corporate landlord implications

19.1 The report contains no direct corporate landlord implications.

20. Schedule of background papers

20.1 None.

21. Schedule of appendices

21.1 Appendix A: Overall membership numbers

21.2 Appendix B: Process analysis

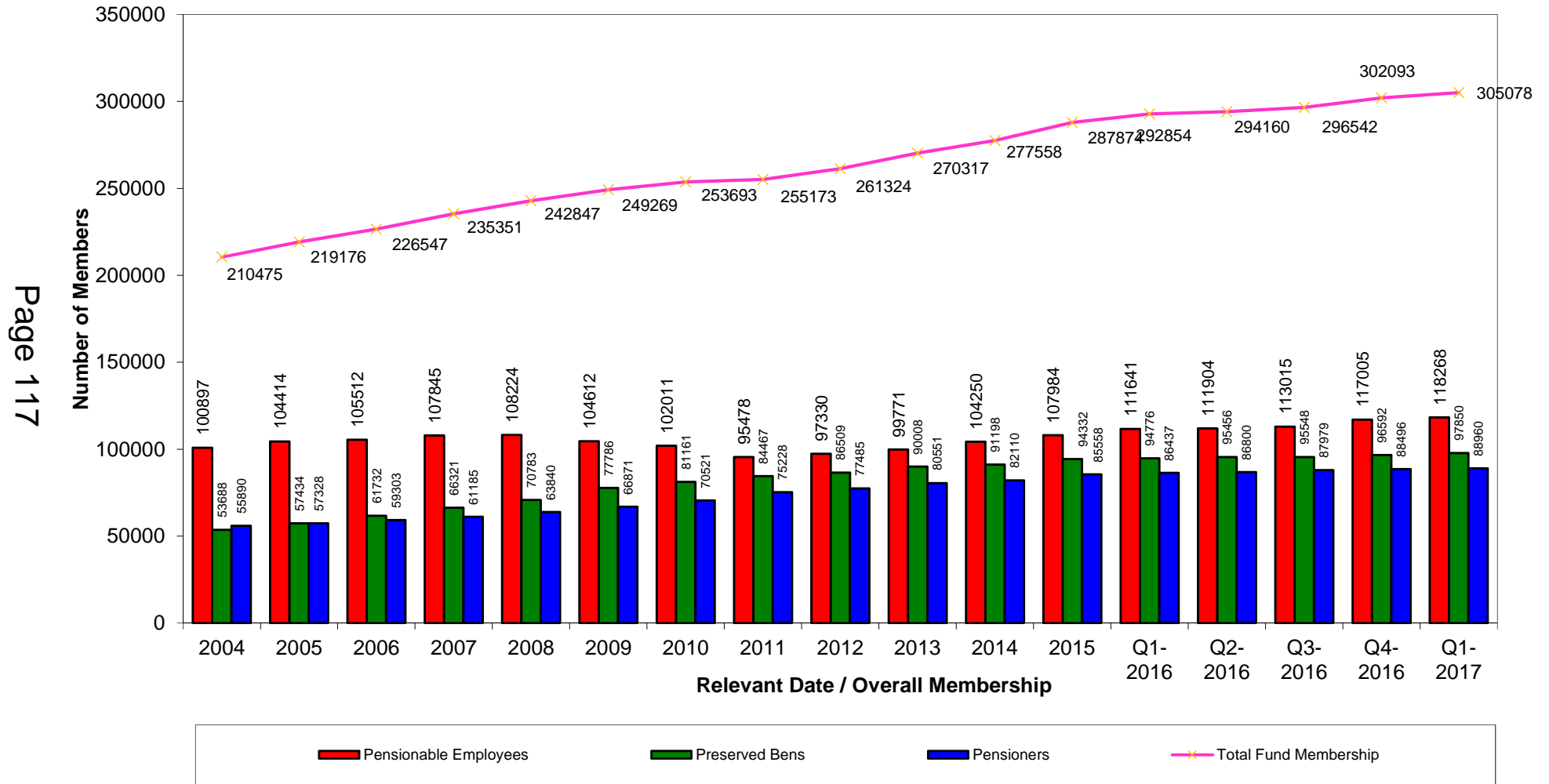
21.3 Appendix C: Detailed process analysis

21.4 Appendix D: Key performance indicators (KPIs)

21.5 Appendix E: Customer service statistics

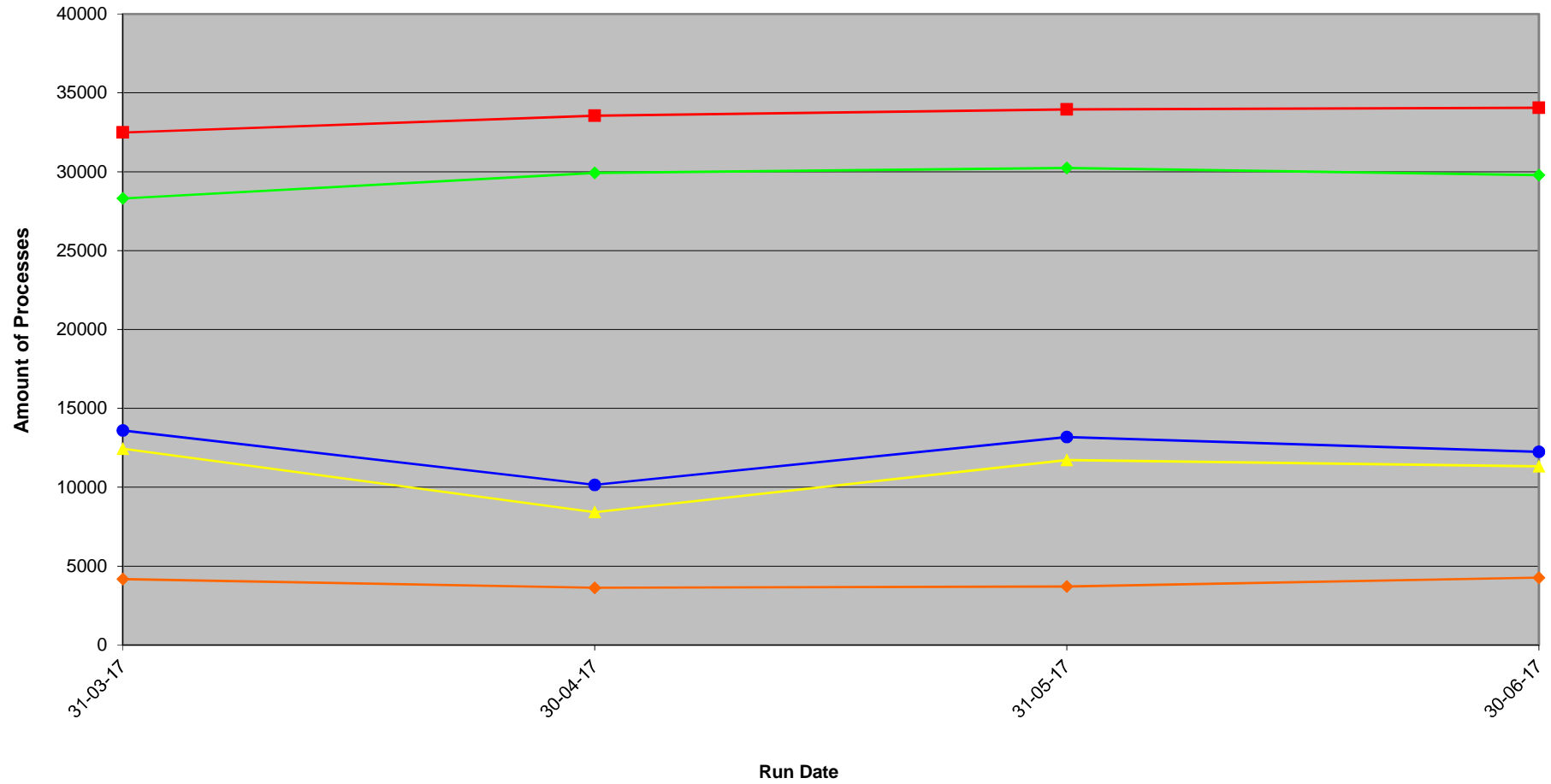
This page is intentionally left blank

Overall Membership West Midlands Pension Fund Membership Statistics as at 31 March 2017



This page is intentionally left blank

Process Analysis



This page is intentionally left blank

2017/18

2012/13	2013/14	2014/15	2015/16
---------	---------	---------	---------

Active & Deferred members

Process type				
Joiners and Rejoiners (Bulk)	11,138	13,558	9,816	16,688
Changes in circumstances eg change in hours	12,385	11,273	6,391	8,752
Deferments	5,741	6,728	5,664	8,340
Active Retirements (Employer retirements)	2,475	2,279	2,351	2,775
Deferred Retirements	2,971	2,726	2,301	3,421
Deaths of members	287	285	230	379

Page 12

Pensioner members

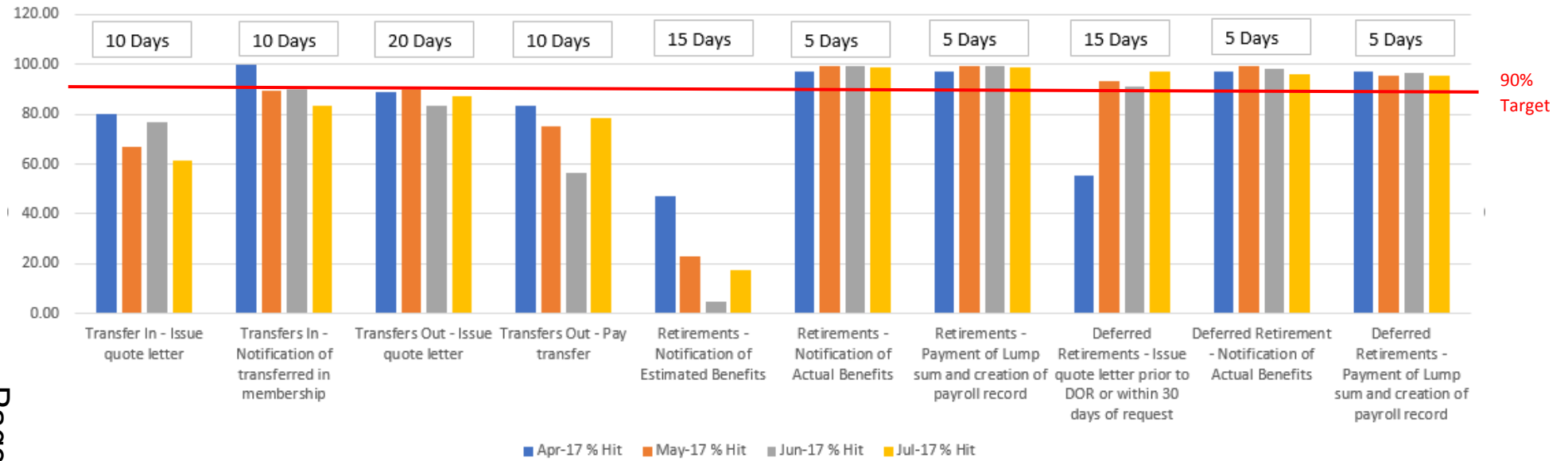
Process type				
Changes in circumstances:-				
Data eg Passwords, NI Numbers	1,865	2,017	2,604	4,548
Changes of Address	2,131	1,732	1,733	2,237
Changes of Bank	2,783	3,420	3,281	1,573
Deaths of pensioners	2,101	2,546	2,454	1,702

Payroll				
Actual amount paid	870,804	895,018	913,864	888,954

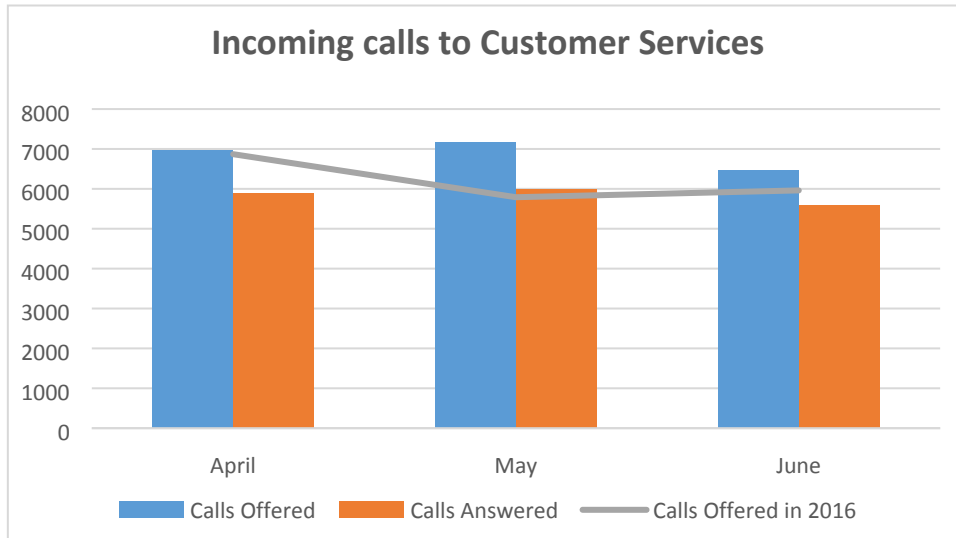
This page is intentionally left blank

West Midlands Pension Fund – Appendix D – Key Performance Indicators (KPIs)

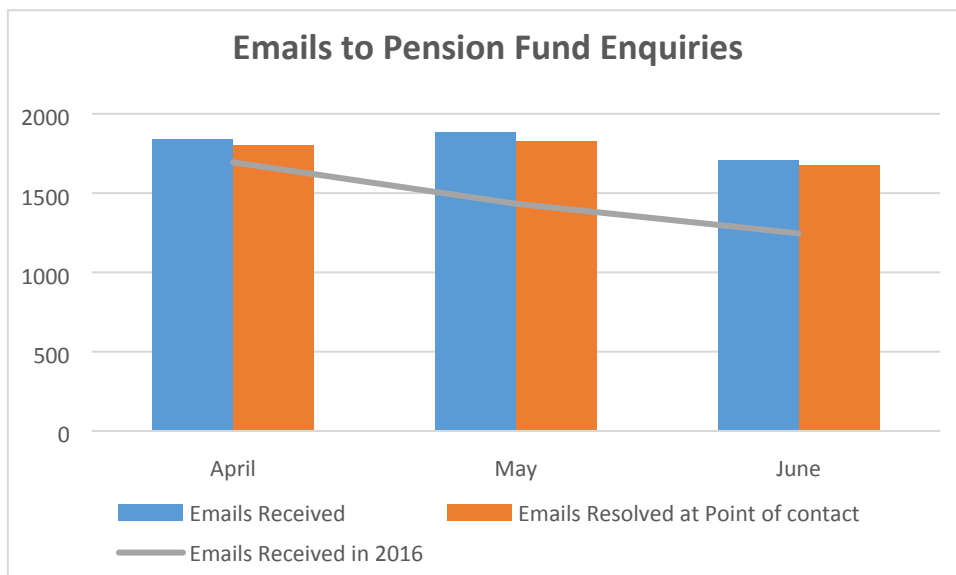
KPI's April - July 2017



This page is intentionally left blank



	April	May	June
Calls Offered	6964	7160	6477
Calls Answered	5891	5978	5586
Calls Offered over same period in 2016	6869	5790	5961
Answer Rate (Target 85%)	84.59%	83.49%	86.24%



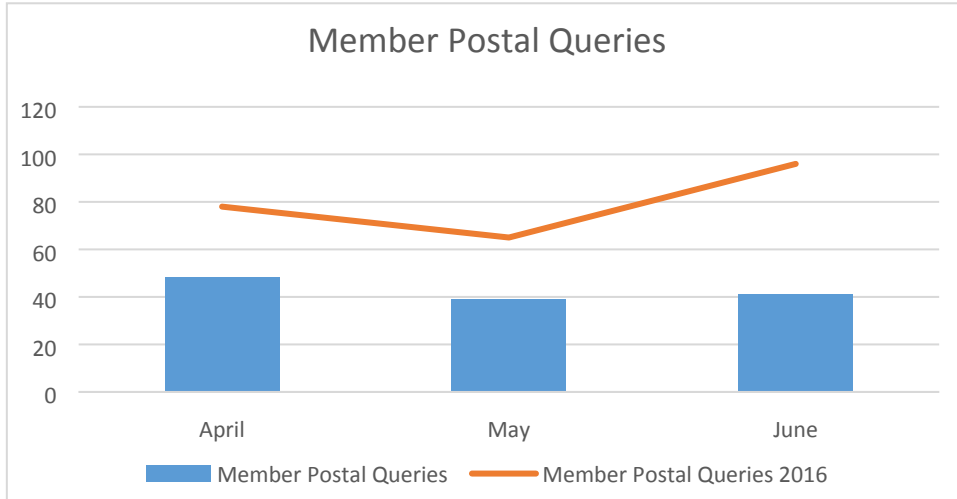
	April	May	June
Emails Received	1836	1881	1705
Emails Resolved at Point of contact	1803	1824	1674
Emails Received over same period in 2016	1694	1433	1246

% of emails resolved at point of contact

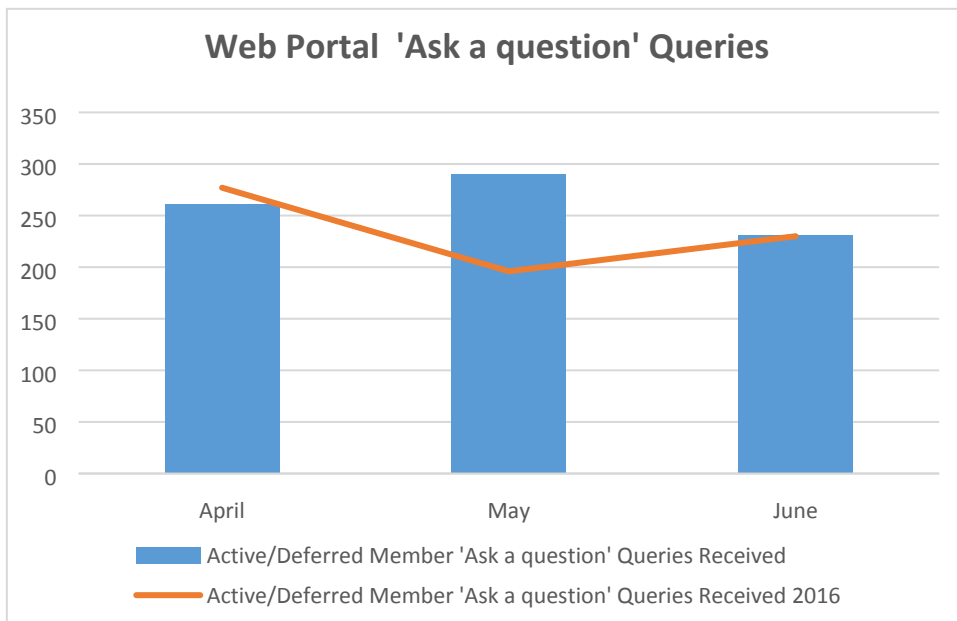
98.20%

96.96%

98.18%



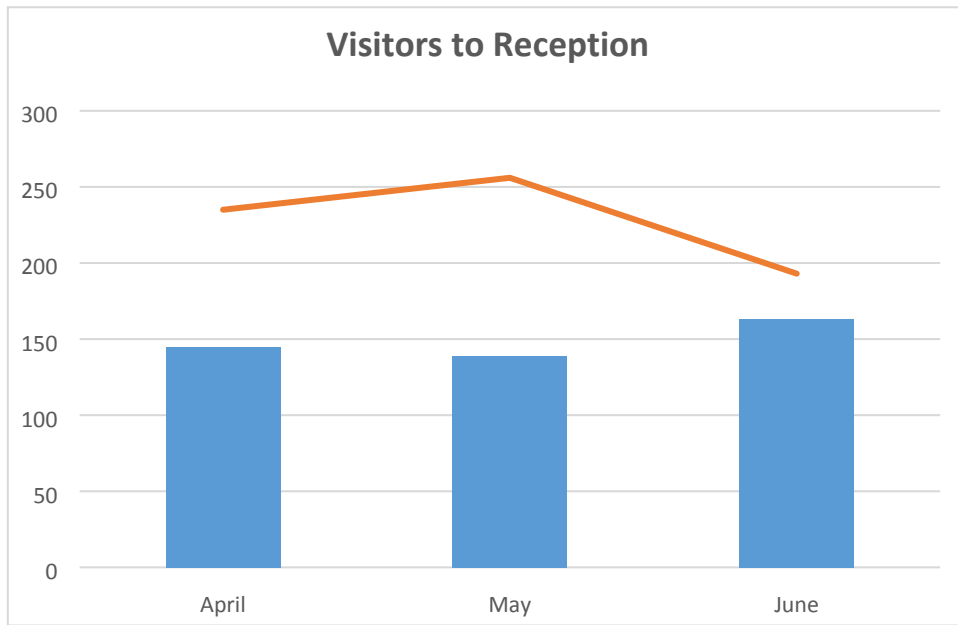
	Member Postal Queries	Member Postal Queries 2016
April	48	78
May	39	65
June	41	96



Active/Deferred Member 'Ask a question' Queries Received

Active/Deferred Member 'Ask a question' Queries Received 2016

April	261	277
May	290	196
June	231	230



	April	May	June
Visitors to Reception 2017	145	139	163
Visitors to Reception 2016	235	256	193

This page is intentionally left blank

Pensions Committee

6 September 2017

Report title	Data Quality Report	
Originating service	Pensions Services	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.Howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 551715
	Email	Rachel.Brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Committee is asked to note:

1. The quality of data held by the Fund in comparison to the standards set by the Pensions Regulator
2. The work of the Fund to improve the quality of data held
3. The ongoing monitoring of Data Quality of the Fund

1.0 Purpose

- 1.1 To provide an update to Committee on the work of the Fund in the area of data quality and to provide assurance for the action the Fund is talking with employers to improve data.

2.0 Background

- 2.1 The Fund has always placed the retention of good quality data high on its list of priorities, however the importance has heightened more recently following greater scrutiny from the Pensions Regulator (TPR) together with the forthcoming changes in Data Protection legislation.
- 2.2 In its recent survey, the TPR stated its disappointment with the quality of data held by large pension schemes reinforcing their statement that record keeping was essential to the good running of a scheme. It further stated that it was not going to be lenient on Funds that failed to manage their data.

3.0 Quality of Data at West Midlands Pensions Fund (WMPF)

- 3.1 The TPR places an obligation on Funds to undertake an annual data review in order to assess the quality of its data for both common (data which is applicable to all schemes) and conditional data (data which is specific to each scheme). Funds are also expected to have in place a robust data plan to address any issues identified during this review. At the last review, the Fund held (99.55%) common data and (97%) conditional data.
- 3.2 Areas which are highlighting as common areas for data inaccuracies are in relation to active members with no earnings in the last 12 months (these are flagged as possible leavers), and members where we have not received basic salary information from the employer
- 3.3 The Fund classifies this data as “Business As Usual” Data as it is information the Fund requires to undertake the normal day-to-day processes (such as processing new joiners/leavers).
- 3.4 Committee will be aware that the Fund has recently completed its 2017 Annual Return process with employers. This is data the Fund needs on a yearly basis as at 31 March in order to reconcile the information it holds before issuing members with a benefit statement.
- 3.5 This year, the Fund received all but 9 Annual Return files of data from its employers with 97% received within the deadline by the end of June, and is currently working with those employers to produce their data. From the information the Fund received, it showed a reduction in error rate of over 11% from the 2016 Annual Return process and the Fund was able to return those error files to all employers with feedback to review 2 months ahead of its own deadline.

4.0 Action by the Fund

- 4.1 Due to the increased focus on Data Quality the Fund has recruited two Data Managers to lead the Business Performance and Data team which has increased in size by 10 staff members since last year. This highlights the importance the Fund has placed on data management. The role of the Data Managers will be to review the data at source, and will act as a direct link for the Employer Relationship Team to report and liaise on data quality with employers aiding in the efficiency of processing member benefits and individual requests.
- 4.2 Having considered the data errors the Fund deals with at the end of each year in the annual returns process, the greater scrutiny from the TPR in relation to data quality and with the changes coming in to Data Protection, the Fund wants to ensure it is in the best possible position to ensure our compliance but also to provide assurance to members that their data is well managed and protected.
- 4.3 Moving forward the fund is moving to monthly returns from employers when they will be required to submit their employee data on a monthly basis to the Fund. The aim is to ensure the accuracy of data held by the fund throughout the year identifying and addressing any issues early on, thereby improving both the member and the employer experience.
- 4.4 To assist with this process the Fund has offered employers the opportunity to start their monthly submissions before the September deadline and to date 225 employers have started submitting their data. We expect to see a substantial increase in the work in this area when all employers go live in September and have ensured the team resource is increased and officers trained to help manage this work.
- 4.5 As the Fund moves to monthly submissions from employers, it will have the ability to review and assess in much greater detail the quality of information coming from employers. It is proposed to review the reporting of Data Quality in line with the availability of information as the Fund seeks to implement employer performance monitoring through the creation of dashboards. This will enable the Fund to have greater visibility of individual employer data and address more specifically any issues which may arise.

5.0 Engagement with employers

- 5.1 The TPR recently reported it had fined a Local Authority for failing to provide its Annual Return.
- 5.2 The Fund works closely with its employers and has recently appointed a Relationship Management Officer to take the lead on employer discussions including data quality. The role will be supported by the Data Managers and will work closely with the Employer Relationship Team to engage and communicate with employers on the fund expectation and obligations under the Regulations.

5.3 Together they will play a key role in delivering dashboard performance reports and following up on any issues identified with individual employers. They will also, if necessary, and in line with the Pension Administration Strategy, consider charging for any additional work required by the Fund as a result of poor employer performance.

6.0 Financial implications

6.1 The late receipt of membership data and/or data errors can increase the administration cost of the Fund and risks penalty charges if as a result the Fund is unable to meet its obligations to members. The Fund monitors employer performance to identify issues early and escalates to appropriate senior officers within those employers where action needs to be taken. The Fund has the ability to recover costs from employers where additional work is required. The Fund is also looking at recharging for additional costs incurred for additional work required for the resolution of large volumes of outstanding data and is managing this on a case by case basis.

7.0 Legal implications

7.1 The Fund has a legal duty to meet with legislation and statutory best practice, failure to do so may open the fund to challenge from the Pensions Regulator or the National Scheme Advisory Board and may incur severe penalties from the ICO with the implementation of the General Data Protection Regulations.

7.2 The Fund is able to impose penalties on employers (to cover any fines or costs incurred) through its adopted pension administration strategy.

8.0 Equalities implications

8.1 There are no implications

9.0 Environmental implications

9.1 There are no implications

10.0 Human resources implications

10.1 There are no implications

11.0 Corporate landlord implications

11.1 There are no implications

12.0 Schedule of background papers

12.1 None

Pensions Committee

6 September 2017

Report title	Fund Structure and Governance	
Originating service	Pensions	
Accountable employee(s)	Rachel Howe	Head of Governance
	Tel	01902 552091
	Email	Rachel.howe@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood	Director of Pensions
	Tel	01902 552020
	Email	rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Committee is asked to note the contents of the report.

1.0 Purpose

- 1.1 To provide Committee with an update on staffing at the Fund due to take effect from 1 October following the retirement of the Strategic Director of Pensions and appointment of the Fund's Chief Investment Officer to the same role within LGPS Central.

2.0 Background

- 2.1 After serving more than 5 years with the West Midlands Pension Fund and 30 years within the public sector, the Fund's Strategic Director will retire at the end of September. This follows a period of secondment to the Fund's investment pool, LGPS Central, where Geik has taken the role of Programme Director and successfully navigated the set-up of the pool, through to appointment of the Board and Senior Management Team and application of the operator for FCA authorisation.
- 2.2 The creation of LGPS Central and transfer of certain aspects of work currently undertaken by the Fund will bring a number of changes to Fund staff involved in investment activity, over the coming months to the target launch date of April 2018. Alongside this, the Pension Administration section of the Fund continues to evolve in response to growing employer and membership numbers, legislative change and increased oversight from the Pensions Regulator, the Scheme Advisory Board and the Government Actuary Department.
- 2.3 Committee will recall in December 2015, the Fund undertook a review of its Pension Administration team, creating new areas of focus in Data Quality and Business Performance together with the new Strategic Role of Head of Client and Funding Management.
- 2.4 Since this review the Fund has recruited a number of new staff and increased the breadth of skills, through a combination of hiring and training staff. All areas (Administration, Investments, Finance and Governance) remain under review to ensure the Fund is equipped to manage the changes and challenges ahead.

3.0 Role of Director

- 3.1 With the retirement of the Strategic Director, Rachel Brothwood, Director of Pensions, will take over responsibility for leading the West Midlands Pension Fund with all delegations (including the management of Human Resources) transferring to her with effect from 1 October 2017. Work is currently underway with the Council's Monitoring Officer to incorporate those changes in the Council's Constitution.

4.0 Investments and Finance

- 4.1 The Fund's Chief Investment Officer, Jason Fletcher has been appointed to the role of Chief Investment Officer for LGPS Central and will formally commence his new role with effect from 1 October 2017.
- 4.2 The Fund will remain responsible for investment strategy and oversight of implementation of investment strategy and the Fund is currently recruiting for a Service Director – Investments and Finance to meet the future requirements of the Fund and advise the Committee on investment matters. The Fund, supported by HR advisers and Committee Members on the Special Appointments Panel, is progressing with the search for a candidate who will be responsible for ensuring the delivery of asset allocation and setting investment strategy (including responsible investment), and will work closely with partner funds and LGPS Central as well as overseeing the Fund finance function
- 4.3 The Fund will also monitor the services provided by LGPS Central, working closely with partner funds to enable asset transition and support service development. Over the period to April 2018, the Fund's Investment Advisory Panel will support the Director of Pensions and internal investment team, overseeing day-to-day investment activity pending the transition to LGPS Central.
- 4.4 A Senior Investment Officer is being recruited. for the Service Director – Investments and Finance role. This role.
- 4.5 Committee will be updated as the recruitment process concludes and the transfer of staff to LGPS Central is agreed.

5.0 Governance and administration

- 5.1 The requirements of the Fund's governance and administration teams also continues to evolve as:
- the bulk of the investment compliance monitoring work will transfer to the pool from April 2018;
 - increasing demand for online tools and electronic communication places increasing importance on data quality and protection, as changes to the member portal and process of information exchange with employers both evolve to enable greater self-service; and
 - the Fund continues to proactively respond to the growing oversight and expectations of regulators and members.
- 5.2 Over the coming months and with the support of the HR Business Partner, the staffing structure will adapt to accommodate the changing requirements of the Fund and to ensure the Fund continues to meet its objectives of providing excellent customer services and being a leading performer within the LGPS.

7.0 Financial implications

- 7.1 The estimated cost of the new Service Director – Investments and Finance role is between £114,000 and £138,000. This can be funded in full from the budget made available by the forthcoming departure of the Chief Investment Officer.
- 7.2 Any further revisions to the staffing structure will be subject to a detailed evaluation of the financial implications in the context of the Fund's approved staffing budget. It should be noted that the Fund's current establishment, which fully reflects the reviews and recruitment implemented during the last two years, as briefly outlined in section 2, is budgeted in full.
- 7.3 There are therefore expected to be no significant financial implications arising from this report.

8.0 Legal implications

- 8.1 The restructure is being driven by key changes in regulatory requirements. Failure by the Fund to meet those changes exposes the Fund to the potential for scrutiny and challenge. The restructure aims to mitigate those risks.
- 8.2 TUPE
 - 8.2.1 The Fund is working with the Council's HR Business Partner to manage the transfer of staff.
- 8.3 Staffing Structure and Delegations
 - 8.3.1 The management of human resources within the Fund is a function delegated to the Strategic Director. All requirement changes to the Delegations will be incorporated in the Council's review of the constitution and can be actioned by the Monitoring Officer to take effect from 1 October 2017.
- 8.4 The Fund is required to ensure its compliance with legislation and statutory guidance, failure to do so may expose the Fund to prosecution or fine.

9.0 Equalities implications

- 9.1 The structure has been undertaken in consultation with HR and the trade unions and is being conducted in line with Council policy.

10.0 Environmental implications

- 10.1 There are no implications.

11.0 Human resources implications

- 11.1 The establishment is being reviewed in the context of the evolving LGPS landscape and requirements on the Fund going forward. New posts will be established in areas the Fund needs to focus. Some posts may be put at risk as we review and re-focus on the tasks and skill-set required to enable the Fund to meet the changes and challenges ahead. Where possible and appropriate to do so, staff at risk will be assimilated or ring-fenced to new posts. Any compulsory redundancies will be mitigated through voluntary redundancy.

12.0 Corporate landlord implications

- 12.1 There are no implications.

13.0 Schedule of background papers

- 13.1 Report to Pensions Committee 9 December 2015 (Item 7)
<https://wolverhamptonintranet.moderngov.co.uk/ieListDocuments.aspx?CId=186&MId=4826&Ver=4>
- 13.2 Report to Pensions Committee 21 June 2016 (Exempt)

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank